

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF SAULT STE. MARIE	County CHIPPEWA
Fiscal Year End 6/30/07	Opinion Date 12/28/07	Date Audit Report Submitted to State 1/2/08	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP)
 - ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 231-627-3143	
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Authorizing CPA Signature 	Printed Name ANNETTE EUSTICE, CPA, CGFM		License Number 1101019667

CITY OF SAULT STE. MARIE

CHIPPEWA COUNTY



FINANCIAL STATEMENTS

JUNE 30, 2007

CITY OF SAULT STE. MARIE

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INDEPENDENT AUDITORS' REPORT

December 28, 2007

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Sault Ste. Marie**, (the "City"), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-XV is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of Sault Ste. Marie's*** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Also, the supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This section of City of Sault Ste. Marie's (the "City") annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Transmittal Letter that is submitted to the City Commission and the City's financial statements, which follow this section.

Financial Highlights

- The City's total net assets at June 30, 2007 were \$76,043,145 consisting of \$53,758,859 in net assets of our governmental activities and \$22,284,286 in net assets of our business-type activities.
- During the fiscal year, we completed 3.2 miles of street reconstruction and associated storm sewers, sidewalks, traffic signals and bike paths with a combined value of approximately \$1.8 million.
- While the Dillon/Washington Way portion of CSO D is completed, the West Easterday standpipe rehabilitation project, funded by the same bond issue, has not been completed. \$250,000 was not enough to cover bids and the project is being broken into more manageable segments.
- In another debt related transaction, the City issued \$677,617 in new debt to build a new service building at the Aune-Osborn Campground.
- With the assistance of a 50% Homeland Security Grant through Chippewa County, the City purchased 18 self-contained breathing units for the Fire Department for \$74,293.
- The Fire Department replaced a demolished ambulance for \$85,715. The majority of the costs came from insurance proceeds.
- The Fire Department used a CEDAP Grant to replace \$15,860 worth of jaws of life related equipment.
- The Police Department replaced 2 patrol units and a 4 x 4 vehicle for \$68,182.
- A video surveillance system for the parking structure was installed at a cost of \$48,972.
- The Street Department used \$294,620 of Depreciation Reserve funds for a sidewalk plow with attachments, a complete plow truck and a tandem dump truck. In addition, \$42,000 of Stock & Equipment Fund money was used to replace the Public Works radio system.
- The Sewer & Water Fund purchased a pickup, a flatbed truck and a new sewage plant load lugger truck for \$134,927.
- The Water Department continued the water meter replacement program at a cost of \$23,304.
- In the Data Processing Fund, the GIS system is being placed in service. Project costs to date are \$152,190.

- Implementation of the City's new hardware and software network is underway and expected to be completed during fiscal 2007-08. Project costs to date are \$120,290. While most hardware costs were incurred through June 20, 2007, only 50% of the software costs were paid.
- The Sherman Park improvement project, built with a combination of Grant, General Fund and Seal Estate funding was essentially completed at a cost of \$404,500.
- In the Industrial Park, the former foreign trade zone building was upgraded for R & B Electronics use at a cost of \$404,600 using a CDBG grant and EDC funds.
- The General Fund, the Seal Estate and donations built a nature trail at the Seal Recreation Area for \$159,570.
- During the fiscal year the City completed \$123,165 in water related projects and \$248,825 of sewer related projects. \$89,465 was spent on projects not yet completed.
- The Kemp Dock Office Rehab project was completed at a cost of \$112,998. The building is to be used as an industrial museum.
- The DDA replaced lighting in Moloney Alley for \$33,399.
- After increasing 112% between fiscal year 2000 and 2005, the cost of providing employee health care decreased last year. Although rates went up 8% in fiscal 2007, this increase was less than expected. The 2008 rates are going to increase 17%. The MERS third year rate is still less than the last year the City's insurance was through Blue Cross.
- Since the new rates are pushing City costs over contract thresholds, the Special Health Care Determining Committee is being convened to implement a plan to reduce City costs.
- The City continues to be hurt by problems with three major General Fund revenue components. Property tax growth remains slow, State Shared Revenue has continued to decline and low interest rates have dramatically reduced unrestricted interest earnings. This interest rate decline has finally reversed.
- Taxable value increased from \$254,452,705 in 2005-06 to \$268,788,438 in 2006-07.
- Total millage remained unchanged at 21.1823. Operating millage at 16.8139 and Library millage at .8000 were the same. Solid Waste millage decreased from .4200 to .3208 and Police/Fire Pension millage increased from 3.1484 to 3.2476.

- 2006-07 revenue sharing was budgeted at \$1,738,365, actual receipts were \$1,678,536, a shortfall of \$59,829.

<u>Revenue Sharing Comparisons</u>	
2006-07	\$1,678,536
2005-06	1,730,057
2004-05	1,749,523
2003-04	1,768,805
2002-03	1,968,064
2001-02	2,068,810
2000-01	2,121,096

If revenue sharing had simply remained at the 2000-01 level, the City would have realized nearly \$1.8 million dollars more in the last five years.

<u>General Fund Interest Comparisons</u>	
2006-07	\$ 321,729
2005-06	207,010
2004-05	115,427
2003-04	70,263
2002-03	118,396
2001-02	143,218
2000-01	361,440

While interest income is now at its highest level in 5 years, if it had remained at the 2000-01 level, over \$1.2 million more would have been realized. Similar interest losses have occurred in other funds.

Because of debt service requirements, increasing energy costs and steadily declining consumption, water and sewer rates have gone up steadily.

Since consumption had bottomed out and then increased over 2 straight years, the City Commission essentially froze rates in 2006-07. Our average household is assumed to use 700 cubic feet per month. In 2005-06 the rate for 700 cubic feet was \$70.56. In 2006-07 it fell 10 cents to \$70.46.

Unfortunately, the 2007 consumption fell to the lowest level in the 18 years of data used for comparison. As a result of this decrease, the newly adopted rate for 700 cubic feet in 2007-08 will be \$72.59.

Because of the consumption trend, steadily increasing operating costs and the level of debt carried by the system, it is difficult to envision any circumstances under which rates can be held anywhere near flat, much less decline.

As fixtures and equipment become increasingly efficient, the only way to increase consumption is to increase customers. Without an increase in users, rates seem destined to continue rising.

Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, combining statements for nonmajor governmental funds, nonmajor enterprise funds and internal service funds and an optional section that presents additional information. The basic financial statements include two kinds of statements that present different views of the City.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental fund statements tell how general government services, like public safety, were financed in the short-term and what remains for future spending.
 - Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the water and sewer system.
 - Fiduciary fund statements provide information about the financial relationships, like the retirement plan for the City employees, in which the City acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. We have also included a section with the combining statements that provide details about our nonmajor governmental funds, nonmajor enterprise funds, internal service funds and the agency fund.

The information below summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of the Management's Discussion and Analysis explains the structure and content of each of the statements.

Major Features of City of Sault Ste. Marie's Government-wide and Fund Financial Statements

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

- The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

- The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, health and welfare, culture and recreation and other. The business-type activities include the water and sewer system, the parking deck and the parking system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the Downtown Development Authority, the Economic Development Corporation, TIFA III (Airport) and the Bayliss Public Library. Although legally separate, these "component units" are incorporated because the City is financially accountable for them.

Government-wide Financial Statements Details:

Scope – Entire City government (except fiduciary funds) and the City's component units.

Required financial statements –

- 1) Statement of net assets
- 2) Statement of activities

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both financial and capital, and short-term and long-term.

Type of inflow/outflow information – All revenues and expenses during the year, regardless of when cash is received or paid.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

- Some funds are required by State law and by bond covenants.
- The City Commission establishes other funds to control and manage money for particular purposes (like the Seal Trust) or to show that it is properly using certain taxes and grants (like federal aid from the U. S. Department of Housing and Urban Development).

All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or difference) between them.

The City maintains numerous individual funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in the fund balances for the General Fund, Major Street Fund, Local Street Fund and Capital Projects Fund, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and Special Revenue Funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and each major special revenue fund.

Governmental Fund Details:

Scope – The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks.

Required financial statements –

- 1) Balance sheet
- 2) Statement of revenues, expenditures and changes in fund balances

Accounting basis and measurement focus – Modified accrual accounting and current financial resources focus.

Type of asset/liability information – Only assets that are expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.

Type of inflow/outflow information – Revenues for which cash is received during or soon after the end of the year and expenditures when goods or services have been received and payment is due during the year or soon thereafter.

Proprietary Funds

Proprietary funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

- In fact, the City’s enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City’s other programs and activities, such as the City’s Data Processing Fund.

Proprietary Fund Details:

Scope – Activities the City operates similar to private businesses: the water and sewer system, and the parking facilities.

Required financial statements –

- 1) Statement of net assets
- 2) Statement of revenues, expenses, and changes in net assets
- 3) Statement of cash flows

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both financial and capital, and short-term and long-term.

Type of inflow/outflow information – All revenues and expenses during year, regardless of when cash is received or paid.

Fiduciary Funds

Fiduciary funds - The City is the trustee, or fiduciary, for its employees’ pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City’s fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City’s government-wide financial statements because the City cannot use these assets to finance its operations.

Fiduciary Fund Details:

Scope – Instances in which the City is the trustee or agent for someone else's resources, such as the retirement plan for the City employees.

Required financial statements –

- 1) Statement of fiduciary net assets
- 2) Statement of changes in fiduciary net assets

Accounting basis and measurement focus – Accrual accounting and economic resources focus.

Type of asset/liability information – All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can.

Type of inflow/outflow information – All revenues and expenses during the year, regardless of when cash is received or paid.

Financial Analysis of the City as a Whole

Net assets. The City's combined net assets increased by approximately \$1 million. Table A-1 shows changes in assets and liabilities for 2007 and 2006 for governmental activities and business-type activities for the City of Sault Ste. Marie.

Table A-1
City's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 22,520,507	\$ 23,444,831	\$ 9,628,079	\$ 10,286,788	\$ 32,148,586	\$ 33,731,619
Capital assets	<u>42,190,913</u>	<u>40,507,720</u>	<u>48,355,726</u>	<u>48,835,599</u>	<u>90,546,639</u>	<u>89,343,319</u>
Total assets	<u>64,711,420</u>	<u>63,952,551</u>	<u>57,983,805</u>	<u>59,122,387</u>	<u>122,695,225</u>	<u>123,074,938</u>
Liabilities						
Current and other liabilities	5,858,364	5,570,143	426,170	409,088	6,284,534	5,979,231
Long-term debt, outstanding	<u>5,094,197</u>	<u>4,720,475</u>	<u>35,273,349</u>	<u>37,228,417</u>	<u>40,367,546</u>	<u>41,948,892</u>
Total liabilities	<u>10,952,561</u>	<u>10,290,618</u>	<u>35,699,519</u>	<u>37,637,505</u>	<u>46,652,080</u>	<u>47,928,123</u>
Net assets						
Invested in capital assets, net of related debt	37,758,584	36,048,006	13,212,475	11,665,118	50,971,059	47,713,124
Restricted	2,392,489	2,691,920	-	-	2,392,489	2,691,920
Unrestricted	<u>13,607,786</u>	<u>14,922,007</u>	<u>9,071,811</u>	<u>9,819,764</u>	<u>22,679,597</u>	<u>24,741,771</u>
Total net assets	<u>\$ 53,758,859</u>	<u>\$ 53,661,933</u>	<u>\$ 22,284,286</u>	<u>\$ 21,484,882</u>	<u>\$ 76,043,145</u>	<u>\$ 75,146,815</u>

Net assets of the City's governmental activities increased approximately .2 percent to approximately \$53.8 million. However, 75 percent of these assets are restricted as to the purpose they can be used for or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted net assets showed a \$13.6 million balance at the end of this year.

The City does not include in annual budgets the full amounts needed to finance future liabilities arising from property and casualty claims and to pay for unused employee vacation and sick days. The City will include these amounts in future years' budgets as they come due.

Figures A-3 and A-4 show functional revenues and expenses of the City of Sault Ste. Marie. Table A-2 and the narrative that follows consider the operation of the governmental and business-type activities separately.

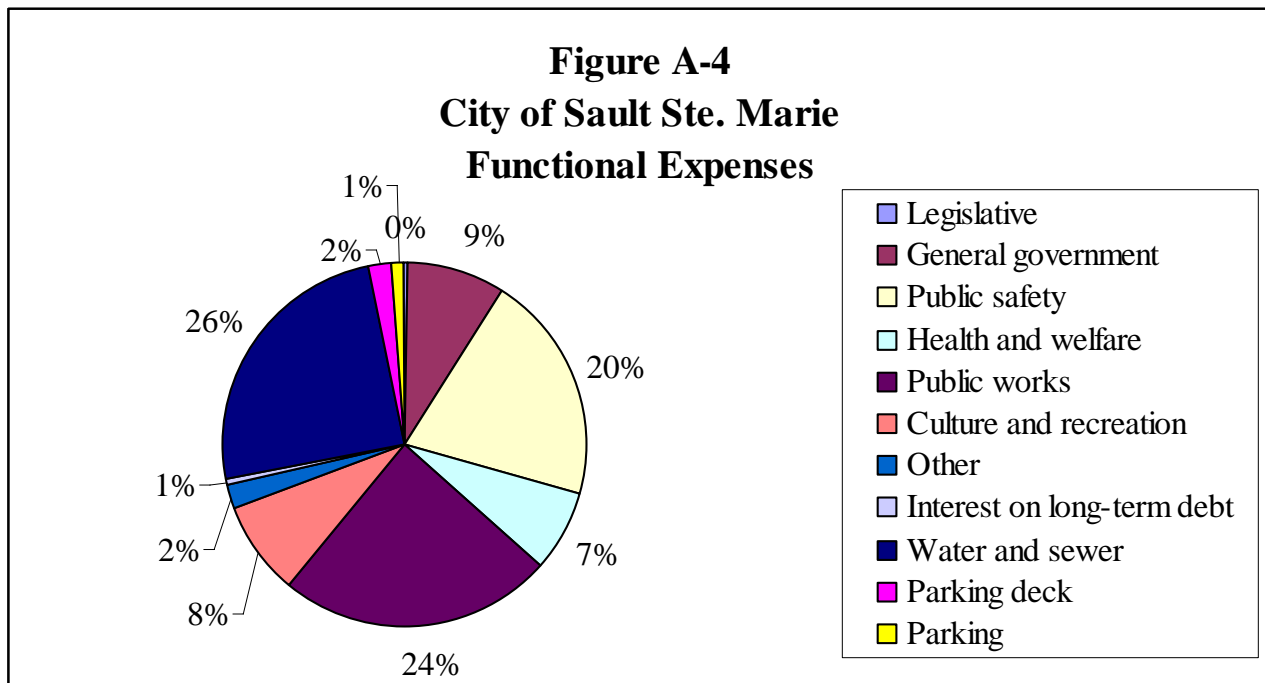
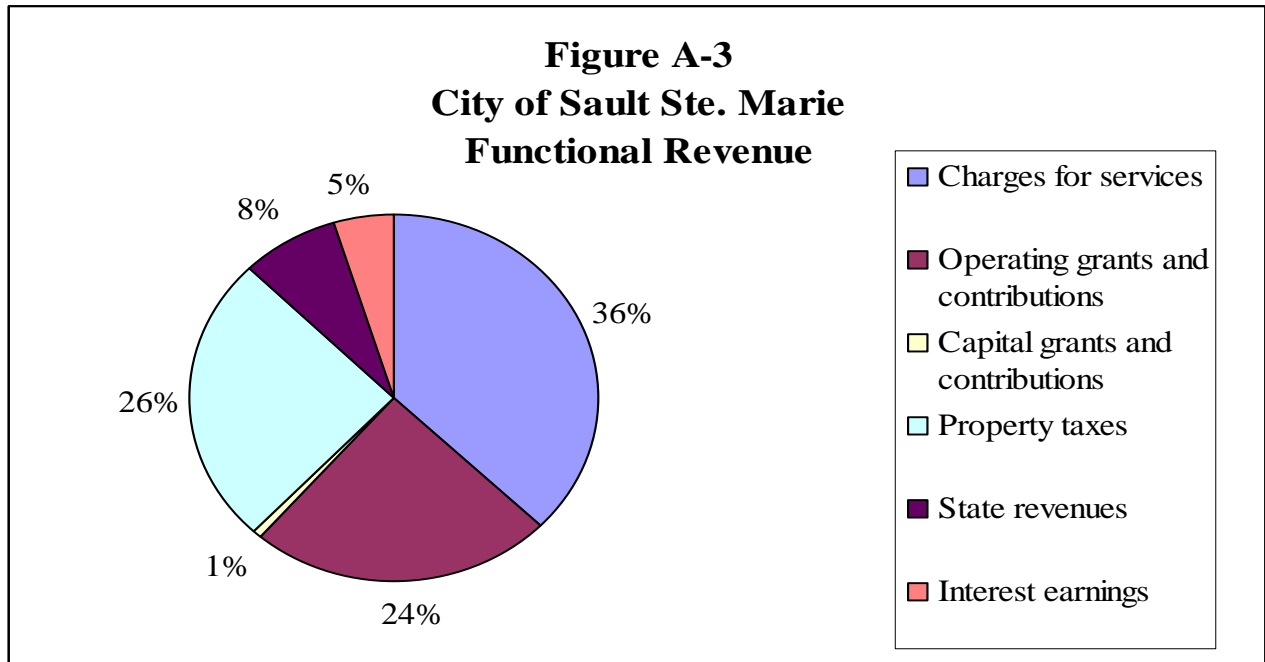


Table A-2 provides a summary of the Revenues and Expenditures and how they impact the net assets for the City of Sault Ste. Marie over a two year period.

Table A-2
Changes in the City of Sault Ste. Marie's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Charges for services	\$ 2,579,011	\$ 2,327,943	\$ 5,557,506	\$ 5,704,557	\$ 8,136,517	\$ 8,032,500
Operating grants and contributions	4,787,709	3,980,835	420,556	1,007,190	5,208,265	4,988,025
Capital grants	124,176	2,049,042	-	-	124,176	2,049,042
General revenues						
Property taxes	5,589,212	5,283,165	-	-	5,589,212	5,283,165
State shared revenue	1,697,386	1,748,224	-	-	1,697,386	1,748,224
Interest earnings	747,815	601,784	276,161	191,208	1,023,976	792,992
Other	-	(122,200)	-	-	-	(122,200)
Transfers	(355,404)	(1,065,700)	355,404	1,065,700	-	-
Total revenues	<u>15,169,905</u>	<u>14,803,093</u>	<u>6,609,627</u>	<u>7,968,655</u>	<u>21,779,532</u>	<u>22,771,748</u>
Expenses						
Legislative	45,437	43,661	-	-	45,437	43,661
General government	1,855,091	1,975,098	-	-	1,855,091	1,975,098
Public safety	4,130,099	3,496,966	-	-	4,130,099	3,496,966
Health and welfare	1,485,285	1,307,533	-	-	1,485,285	1,307,533
Public works	4,978,231	4,152,774	-	-	4,978,231	4,152,774
Culture and recreation	1,683,351	1,576,300	-	-	1,683,351	1,576,300
Other expenses	455,456	302,233	-	-	455,456	302,233
Interest on long-term debt	130,904	203,753	-	-	130,904	203,753
Water and sewer	-	-	5,110,055	4,723,466	5,110,055	4,723,466
Parking deck	-	-	434,382	397,958	434,382	397,958
Parking	-	-	203,166	207,878	203,166	207,878
Total expenses	<u>14,763,854</u>	<u>13,058,318</u>	<u>5,747,603</u>	<u>5,329,302</u>	<u>20,511,457</u>	<u>18,387,620</u>
Change in net assets	406,051	1,744,775	862,024	2,639,353	1,268,075	4,384,128
Net assets, beginning of the year, as restated 2007)	<u>53,352,808</u>	<u>51,917,158</u>	<u>21,422,262</u>	<u>18,845,529</u>	<u>74,775,070</u>	<u>70,762,687</u>
Net assets – end of year	<u>\$ 53,758,859</u>	<u>\$ 53,661,933</u>	<u>\$ 22,284,286</u>	<u>\$ 21,484,882</u>	<u>\$ 76,043,145</u>	<u>\$ 75,146,815</u>

Governmental Activities

Table A-3 presents the cost of the City's five largest programs - general government, public safety, public works, health and welfare, and culture and recreation, as well as each program's net cost (total costs less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

- The cost of all governmental activities was \$14,763,854.
- However, the amount that our taxpayers paid for these activities through City taxes was only \$5,589,212.
- Some of the costs were paid by:
 - Those who directly benefited from the programs (\$2,579,011)
 - Other governments and organizations subsidized certain programs with grants and contributions (\$4,915,938)
- Capital grants decreased as the City received a Community Development Block Grant in the prior year for the construction of the parking garage of approximately \$1,600,000 and no grants of this magnitude were received in the current year.

Table A-3
Net Cost of City of Sault Ste. Marie's Five Largest Governmental Activities

	Total Cost Activities		Net Cost (Benefit) of Services	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General government	\$ 1,855,091	\$ 1,975,098	\$ 707,866	\$ 1,174,874
Public safety	4,130,099	3,496,966	3,463,728	2,874,839
Public works	4,978,231	4,152,774	2,082,194	(203,202)
Health and welfare	1,485,285	1,307,533	169,636	20,132
Culture and recreation	<u>1,683,351</u>	<u>1,576,300</u>	<u>221,200</u>	<u>290,726</u>
Total	<u>\$ 14,132,057</u>	<u>\$ 12,508,671</u>	<u>\$ 6,644,624</u>	<u>\$ 4,157,369</u>

Business-type Activities

Charges for services revenues of the City's business-type activities decreased slightly from the prior fiscal year.

In the Sewer & Water Fund revenue decreased approximately 2.2%. Rates remained unchanged from the prior year while billable consumption declined.

In the Parking Fund, charges fell more than \$39,000 while charges in the Parking Deck Fund increased approximately \$8,350.

Operating grants and transfers in decreased approximately 58% and 67%, respectively, due to the parking garage being completed in the prior year.

Financial Analysis of the City's Funds

As the City completed the year, the General Fund's fund balance decreased \$577,502. This compares favorably to a budgeted decrease in fund balance of \$1,527,254. While some of the favorable balance is due to capital items budgeted and not yet completed, operating revenues, with the exception of state sources, were running ahead of expectations and operating expenses are generally under budget.

The Major Street Fund's fund balance increased \$168,059 compared to a budgeted decrease of \$265,314. State shared revenue ran \$77,398 under budget. The increase is a result of favorable results in operating areas and capital projects which are not yet completed.

The Local Street Fund's fund balance decreased \$618,341 compared to a budgeted decrease of \$254,375.

While most of the decrease was the result of previously budgeted capital projects being completed, State shared revenue was \$46,500 under budget and many operating cost centers exceeded expectations.

General Fund Budgetary Highlights

Over the course of the year, the City Commission revised the City budget several times. The budget amendments fall into six major categories:

- 1) Payroll and fringe increases due to contract settlements and non-union raises totaling approximately \$759,300.
- 2) Changes in Dial-A-Ride funding from the State increased revenue and expense budgets by \$140,290.
- 3) The Commission accepted airport related grants of \$342,000 and \$18,000 from TIFA 3 for their local match.
- 4) The Commission accepted a \$190,000 CDBG Grant and \$210,000 from the EDC to rehab the foreign trade zone building for use by R & B Electronics.
- 5) In a related item, the Commission accepted a \$155,000 Brownfield Grant for cleanup activities around the R & B building.
- 6) The City Commission authorized the purchase of a demo ambulance for \$85,715.

Actual expenditures and transfers were approximately \$2.33 million under budget. Non-expended capital outlay items account for \$1.48 million of this variance. In addition, most operating cost centers came in under budget. Fringe benefits came in under budget and contributed to positive results in operating cost centers.

As budgeted capital outlay items are expensed, much of the favorable variance will be eliminated.

Revenue came in \$700,999 under budget. State sales tax shared revenue continues to lag and is \$59,800 under budget. Most of the remaining shortfall is in State sources revenue related to \$908,900 of State Grants for projects which have been budgeted, but not yet completed and trust related transfers for incomplete projects.

Until there is a significant improvement in the State economy, strain on the City budget will continue.

The ending fund balance is \$.95 million higher than budgeted because of the combination of items noted above.

Capital Assets

During 2007, the City had invested \$90,546,639 in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See the Capital Asset Table below) This amount represents a net increase (including additions and deductions) of \$1,203,320, or 1 percent, over last year.

Table A-4
City of Sault Ste. Marie's Capital Assets
(net of depreciation, where applicable)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Total</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>Percent Change 2007-2006</u>
Land and improvements	\$ 4,439,170	\$ 4,366,032	\$ 164,243	\$ 164,243	\$ 4,603,413	\$ 4,530,275	2%
Building and improvements	4,606,553	3,654,873	14,513,443	14,778,705	19,119,996	18,433,578	4%
Equipment	2,877,264	2,527,917	1,191,407	1,100,285	4,068,671	3,628,202	12%
Infrastructure	29,013,624	28,928,113	31,762,917	32,130,875	60,776,541	61,058,988	(1)%
Construction-in-progress	<u>1,254,302</u>	<u>1,030,785</u>	<u>723,716</u>	<u>661,491</u>	<u>1,978,018</u>	<u>1,692,276</u>	<u>17%</u>
Total	<u>\$42,190,913</u>	<u>\$40,507,720</u>	<u>\$48,355,726</u>	<u>\$48,835,599</u>	<u>\$90,546,639</u>	<u>\$89,343,319</u>	<u>34%</u>

The City's fiscal year 2008 capital projects budgets anticipated \$4,094,569 in spending, principally for Shunk Road – Marquette to Spruce, W. Easterday Resurfacing, W. 6th Avenue, Rotary Park, the Pullar Community Building exterior rehab and the lot at the S.E. corner of Ashmun and Portage. This would be funded by \$2,189,422 of local funds, various grants and State Infrastructure Bank loans.

More detailed information about the City's capital assets is presented in the Notes to the Financial Statements.

Long-term Debt

At year-end the City had approximately \$39.6 million in bonds and notes outstanding – a decrease of slightly less than 5% from last year – as shown in the table below. More detailed information about the City's long-term liabilities is presented in the Notes to the Financial Statements.

New debt during the fiscal year included \$677,617 for a new service building at the Aune-Osborn Campground and \$7,770 for the final pay request for the 1998 SRF loan.

Table A-5
City of Sault Ste. Marie's Outstanding Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Total Percent Change 2007-2006</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
Notes and installments	\$ 1,330,491	\$ 739,714	\$ -	\$ -	\$ 1,330,491	\$ 739,714	55%
General obligation bonds (backed by the City)	1,955,000	2,425,000	5,920,000	6,000,000	7,875,000	8,425,000	(7)%
Revenue bonds and notes (backed by specific tax and fee revenues)	<u>1,145,000</u>	<u>1,295,000</u>	<u>29,223,251</u>	<u>31,170,481</u>	<u>30,368,251</u>	<u>32,465,481</u>	<u>(7)%</u>
Total	<u>\$ 4,430,491</u>	<u>\$ 4,459,714</u>	<u>\$35,143,251</u>	<u>\$37,170,481</u>	<u>\$39,573,742</u>	<u>\$41,630,195</u>	<u>(5)%</u>

Economic Factors and Next Year's Budgets and Rates

- The City's elected and appointed officials considered many factors when setting the fiscal year 2008 General Fund Budget. A continuing reduction in state revenue, small incremental increases in property tax revenue and rapidly escalating health care costs are combining to force officials to re-evaluate how the City does business.
- Efforts to reduce the structural deficit have helped stabilize the General Fund's fund balance. The City will need to continue to address this in order to stop drawing down the General Fund's fund balance indefinitely. Services may need to be reduced or eliminated unless revenues can be enhanced.
- The City used attrition and retirement enhancements between 2004 and 2005 to eliminate 14 positions. Since that time 2 positions have been added, one in public works and a human resources director.
- A new health insurance carrier replaced Blue Cross in October 2005, and at least temporarily, reversed the trend of rapidly escalating health care costs. While costs are going up, they have not reached pre-conversion levels. Management and the City's unionized and non-union employees are working together in an attempt to control these costs.
- During budget deliberations, the City Commission elected to essentially freeze water and sewer rates during 2006-07. The hope was that a 2 year trend of higher consumption would continue and revenue would be somewhat stable. In reality, consumption dropped to its lowest level in 18 years and revenue decreased. The 2007-08 rate was increased approximately 3%.
- The City intends to utilize the State Infrastructure Bank to help finance the Shunk Road project and is considering borrowing another \$482,000 for other street projects.

- The W. Easterday resurfacing project is eligible for a State Jobs Today Grant of \$91,520 and the advance of a 2010 Small Urban Grant of \$366,080. The State indicated that the City was eligible for a Jobs Today Loan of up to \$457,600 to bridge the gap until the 2010 Small Urban Grant is available.

Contacting the City's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Spencer Nebel, City Manager, 325 Court Street, City of Sault Ste. Marie, MI 49783.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF SAULT STE. MARIE

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 11,099,219	\$ 4,780,945	\$ 15,880,164
Investments	-	-	-
Restricted cash and cash equivalents	-	4,135,763	4,135,763
Restricted investments	2,392,489	-	2,392,489
Receivables, net	8,844,840	473,325	9,318,165
Other	273,850	148,155	422,005
Internal balances	(89,891)	89,891	-
Capital assets not being depreciated	2,934,533	887,959	3,822,492
Capital assets being depreciated, net	39,256,380	47,467,767	86,724,147
Total assets	64,711,420	57,983,805	122,695,225
Liabilities			
Accounts payable and accrued expenses	992,176	415,313	1,407,489
Unearned revenue	4,866,188	-	4,866,188
Noncurrent liabilities			
Due within one year	403,547	2,135,857	2,539,404
Due in more than one year	4,690,650	33,148,349	37,838,999
Total liabilities	10,952,561	35,699,519	46,652,080
Net assets			
Invested in capital assets, net of related debt	37,758,584	13,212,475	50,971,059
Restricted for nonexpendable trust and perpetual care funds	2,392,489	-	2,392,489
Restricted for endowments	-	-	-
Unrestricted	13,607,786	9,071,811	22,679,597
Total net assets	\$ 53,758,859	\$ 22,284,286	\$ 76,043,145

The accompanying notes are an integral part of these basic financial statements.

Component Units			
Downtown Development Authority	Economic Development Corporation	TIFA	Library
\$ 1,392,024	\$ 128,173	\$ 204,310	\$ 361,027
-	100,000	-	251,362
-	-	-	-
-	-	-	166,549
39,126	224,425	-	33,452
-	-	-	5,017
-	-	-	-
-	20,000	-	22,822
-	6,615	-	254,405
<u>1,431,150</u>	<u>479,213</u>	<u>204,310</u>	<u>1,094,634</u>
11,552	11,207	-	49,488
-	11,649	-	-
-	-	-	-
-	6,813	-	20,860
<u>11,552</u>	<u>29,669</u>	<u>-</u>	<u>70,348</u>
-	26,615	-	277,227
-	-	-	-
-	-	-	166,549
<u>1,419,598</u>	<u>422,929</u>	<u>204,310</u>	<u>580,510</u>
<u>\$ 1,419,598</u>	<u>\$ 449,544</u>	<u>\$ 204,310</u>	<u>\$ 1,024,286</u>

CITY OF SAULT STE. MARIE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities				
Legislative	\$ 45,437	\$ -	\$ -	\$ -
General government	1,855,091	123,786	1,023,439	-
Public safety	4,130,099	240,002	426,369	-
Health and welfare	1,485,285	1,315,649	-	-
Public works	4,978,231	82,428	2,945,765	(132,156)
Culture and recreation	1,683,351	813,683	392,136	256,332
Other	455,456	3,463	-	-
Interest on long-term debt	130,904	-	-	-
Total governmental activities	14,763,854	2,579,011	4,787,709	124,176
Business-type activities				
Water and sewer	5,110,055	5,381,225	204,326	-
Parking deck	434,382	25,425	216,230	-
Parking	203,166	150,856	-	-
Total business-type activities	5,747,603	5,557,506	420,556	-
Total primary government	\$ 20,511,457	\$ 8,136,517	\$ 5,208,265	\$ 124,176
Component units				
Downtown Development Authority	793,858	-	131,719	-
Economic Development Corporation	194,818	-	156,822	-
TIFA	202,678	-	-	-
Library	634,962	75,567	629,236	-
Total component units	\$ 1,826,316	\$ 75,567	\$ 917,777	\$ -

Continued...

CITY OF SAULT STE. MARIE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (7,272,958)	\$ 230,459	\$ (7,042,499)
General revenues			
Property taxes	5,589,212	-	5,589,212
State revenues	1,697,386	-	1,697,386
Interest earnings	747,815	276,161	1,023,976
Transfers - internal activities	(355,404)	355,404	-
Total general revenues	7,679,009	631,565	8,310,574
Change in net assets	406,051	862,024	1,268,075
Net assets, beginning of year, as previously reported	53,661,933	21,484,882	75,146,815
Prior period adjustment	(309,125)	(62,620)	(371,745)
Net assets, beginning of year, as restated	53,352,808	21,422,262	74,775,070
Net assets, end of year	\$ 53,758,859	\$ 22,284,286	\$ 76,043,145

The accompanying notes are an integral part of these financial statements.

Component Units			
Downtown Development Authority	Economic Development Corporation	TIFA	Library
\$ (662,139)	\$ (37,996)	\$ (202,678)	\$ 69,841
528,831	-	313,177	-
-	-	-	-
53,258	-	1,509	-
-	-	-	-
582,089	-	314,686	-
(80,050)	(37,996)	112,008	69,841
1,499,648	487,540	92,302	954,445
-	-	-	-
1,499,648	487,540	92,302	954,445
\$ 1,419,598	\$ 449,544	\$ 204,310	\$ 1,024,286

Concluded

FUND FINANCIAL STATEMENTS

CITY OF SAULT STE. MARIE

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2007

ASSETS	General	Major Street	Local Street	Capital Projects
Assets				
Cash and cash equivalents	\$ 1,966,629	\$ 1,062,254	\$ 592,636	\$ 19,478
Accounts receivable	360,362	-	143	-
Taxes receivable	4,866,188	-	-	-
Due from other governmental units	800,799	239,815	46,612	-
Special assessments receivable	1,108,060	247,455	523,891	-
Inventory	26,473	-	-	-
Prepaid expenditures	115,749	-	-	-
Restricted investments	-	-	-	-
Total assets	\$ 9,244,260	\$ 1,549,524	\$ 1,163,282	\$ 19,478
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 426,173	\$ 8,604	\$ 41,426	\$ -
Accrued expenses	343,670	1,124	1,213	-
Deferred revenue	5,974,248	247,455	523,891	-
Total liabilities	6,744,091	257,183	566,530	-
Fund balances				
Reserved for inventory and prepaid expenses	142,222	-	-	-
Reserved reported in permanent funds	-	-	-	-
Unreserved				
Designated				
Subsequent years' expenditures	486,786	182,911	1,105	-
Reported in special revenue funds	-	-	-	-
Reported in capital project funds	-	-	-	19,478
Undesignated	1,871,161	1,109,430	595,647	-
Total fund balances	2,500,169	1,292,341	596,752	19,478
Total liabilities and fund balances	\$ 9,244,260	\$ 1,549,524	\$ 1,163,282	\$ 19,478

Nonmajor Governmental Funds	Total Governmental Funds
\$ 6,034,294	\$ 9,675,291
41,815	402,320
-	4,866,188
-	1,087,226
590,812	2,470,218
-	26,473
-	115,749
2,392,489	2,392,489
\$ 9,059,410	\$ 21,035,954

\$ 36,356	\$ 512,559
-	346,007
590,812	7,336,406
627,168	8,194,972

-	142,222
2,714,549	2,714,549
27,135	697,937
380,639	380,639
-	19,478
5,309,919	8,886,157
8,432,242	12,840,982
\$ 9,059,410	\$ 21,035,954

Continued...

CITY OF SAULT STE. MARIE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

JUNE 30, 2007

Reconciliation of fund balances on the balance sheet for governmental funds to the statement of net assets

Fund balances - total governmental funds \$ 12,840,982

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets (net) 40,782,692

Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.

Add: deferred revenue on special assessments receivable 2,470,218

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund 2,775,996

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: compensated absences payable (636,727)

Deduct: bonds and notes payable (4,432,329)

Deduct: accrued interest on bonds and notes payable (41,973)

Net assets of governmental activities **\$ 53,758,859**

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	General	Major Street	Local Street	Capital Projects
Revenues				
Taxes	\$ 5,339,767	\$ -	\$ -	\$ -
Special assessments	116,940	79,563	118,303	-
Federal sources	222,451	498,133	-	-
State sources	2,153,486	1,092,292	379,928	-
Local sources	137,432	-	-	-
Licenses and permits	43,729	-	-	-
Charges for services	2,449,391	970	-	-
Rental	-	-	-	-
Interest	321,729	57,571	42,796	-
Miscellaneous	270,287	-	-	-
Total revenues	11,055,212	1,728,529	541,027	-
Expenditures				
Current				
Legislative	45,437	-	-	-
General government	1,904,355	-	-	-
Public safety	3,851,166	-	-	-
Health and welfare	1,485,285	-	-	-
Culture and recreation	1,368,607	-	-	-
Public works	635,922	1,499,027	1,820,360	-
Other	432,555	-	-	-
Capital outlay	1,834,842	-	-	-
Debt service				
Principal	175,002	57,500	92,500	-
Interest	111,085	39,733	26,773	-
Total expenditures	11,844,256	1,596,260	1,939,633	-
Revenues over (under) expenditures	(789,044)	132,269	(1,398,606)	-
Other financing sources (uses)				
Loan proceeds	677,617	-	-	-
Transfers in	234,220	67,306	895,964	-
Transfers out	(700,295)	(31,516)	(115,699)	-
Total other financing sources (uses)	211,542	35,790	780,265	-
Net change in fund balances	(577,502)	168,059	(618,341)	-
Fund balances, beginning of year	3,077,671	1,124,282	1,215,093	19,478
Fund balances, end of year	\$ 2,500,169	\$ 1,292,341	\$ 596,752	\$ 19,478

Nonmajor Governmental Funds	Total Governmental Funds
\$ 249,445	\$ 5,589,212
188,076	502,882
357,324	1,077,908
13,402	3,639,108
848,025	985,457
-	43,729
3,463	2,453,824
81,458	81,458
275,943	698,039
184,881	455,168
2,202,017	15,526,785
-	45,437
-	1,904,355
-	3,851,166
-	1,485,285
166,331	1,534,938
156,663	4,111,972
22,901	455,456
671,205	2,506,047
380,000	705,002
11,546	189,137
1,408,646	16,788,795
793,371	(1,262,010)
-	677,617
753,925	1,951,415
(1,518,767)	(2,366,277)
(764,842)	262,755
28,529	(999,255)
8,403,713	13,840,237
\$ 8,432,242	\$ 12,840,982

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

Reconciliation of the statement of revenues, expenditures and changes in fund balance of governmental funds to the statement of activities

Net change in fund balances - total governmental funds \$ (999,255)

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay 3,833,042
Deduct: depreciation expense (2,424,645)

Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.

Deduct: special assessment receipts (502,882)
Add: current year special assessments 272,522

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct: note proceeds (677,617)
Add: principal payments on long-term liabilities 705,002

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: change in net assets from governmental activities accounted for in internal service funds 230,835

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in compensated absences (99,730)
Add: payments on compensated absences 10,546
Add: decrease in accrued interest on bonds and notes payable 58,233

Change in net assets of governmental activities \$ 406,051

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts			Variance With Amended Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 5,245,587	\$ 5,245,587	\$ 5,339,767	\$ 94,180
Special assessments	87,000	87,000	116,940	29,940
Federal sources	(213,600)	24,494	222,451	197,957
State sources	2,848,245	3,422,514	2,153,486	(1,269,028)
Local sources	141,625	141,625	137,432	(4,193)
Licenses and permits	48,200	48,200	43,729	(4,471)
Charges for services	2,139,375	2,300,311	2,449,391	149,080
Interest	155,000	255,000	321,729	66,729
Miscellaneous	208,925	231,480	270,287	38,807
Total revenues	10,660,357	11,756,211	11,055,212	(700,999)
Expenditures				
Legislative				
City Council	45,630	45,630	45,437	193
General government				
City manager	297,623	253,413	210,556	42,857
Clerk	190,340	194,732	184,860	9,872
Assessor	142,860	150,901	136,282	14,619
Attorney	82,495	86,318	66,334	19,984
Finance	359,380	387,064	378,108	8,956
Cemetery	134,950	148,609	122,151	26,458
Non-departmental	724,596	961,144	806,064	155,080
Total general government	1,932,244	2,182,181	1,904,355	277,826
Public safety				
Police department	1,942,415	2,223,491	2,182,098	41,393
Fire department	1,141,705	1,275,547	1,038,820	236,727
Sane	75,865	75,865	67,106	8,759
PA 302	5,800	5,800	7,906	(2,106)
Youth/Alcohol	-	24,494	15,983	8,511
Cops in schools	62,620	62,620	46,921	15,699
Inspection	308,850	324,610	262,029	62,581
Planning and development	230,640	248,957	230,303	18,654
Total public safety	3,767,895	4,241,384	3,851,166	390,218
Health and welfare				
Ambulance	1,153,670	1,297,129	1,485,285	(188,156)
Public works				
Engineering	296,540	309,796	266,895	42,901
Sidewalks and alleys	159,820	178,297	138,942	39,355
Composting	167,540	107,653	134,182	(26,529)
Airport	240,710	67,070	64,261	2,809
Industrial park	22,700	22,700	31,642	(8,942)
Total public works	887,310	685,516	635,922	49,594

Continued...

CITY OF SAULT STE. MARIE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance With Amended Budget Positive (Negative)
	Original	Final		
Culture and recreation				
Parks	\$ 302,755	\$ 344,836	\$ 358,584	\$ (13,748)
Marina	6,200	6,200	4,864	1,336
Kemp Marina	129,600	129,600	128,017	1,583
Pullar	328,550	361,067	338,567	22,500
Recreation	356,660	360,881	346,522	14,359
Historic homes	22,050	22,050	130,118	(108,068)
Minneapolis Woods	85,900	80,400	45,182	35,218
Osborn	16,300	16,300	16,753	(453)
Total culture and recreation	1,248,015	1,321,334	1,368,607	(47,273)
Other				
Insurance and bonds	55,000	55,000	37,189	17,811
General appropriations	81,060	289,539	336,441	(46,902)
Community promotion	92,300	98,163	58,925	39,238
Total other	228,360	442,702	432,555	10,147
Capital outlay	1,119,513	3,310,154	1,834,842	1,475,312
Debt service				
Principal	164,500	189,769	175,002	14,767
Interest	78,634	96,319	111,085	(14,766)
Total debt service	243,134	286,088	286,087	1
Total expenditures	10,625,771	13,812,118	11,844,256	1,967,862
Revenues over (under) expenditures	34,586	(2,055,907)	(789,044)	1,266,863
Other financing sources (uses)				
Debt proceeds	-	671,617	677,617	6,000
Transfers in	972,402	653,161	234,220	(418,941)
Transfers out	(431,420)	(796,125)	(700,295)	95,830
Total financing sources (uses)	540,982	528,653	211,542	(317,111)
Net change in fund balance	575,567	(1,527,254)	(577,502)	949,752
Fund balance, beginning of year	3,077,671	3,077,671	3,077,671	-
Fund balance, end of year	\$ 3,653,238	\$ 1,550,417	\$ 2,500,169	\$ 949,752

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - MAJOR STREET FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts			Variance With Amended Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Special assessments	\$ 33,000	\$ 33,000	\$ 79,563	\$ 46,563
Federal sources	-	-	498,133	498,133
State sources	1,006,843	1,169,690	1,092,292	(77,398)
Charges for services	-	-	970	970
Interest	35,000	35,000	57,571	22,571
Miscellaneous	350	350	-	(350)
Total revenues	1,075,193	1,238,040	1,728,529	490,489
Expenditures				
Public works	2,246,502	2,187,132	1,499,027	688,105
Debt service				
Principal	57,500	57,500	57,500	-
Interest	81,133	81,133	39,733	41,400
Total expenditures	2,385,135	2,325,765	1,596,260	729,505
Revenues over (under) expenditures	(1,309,942)	(1,087,725)	132,269	1,219,994
Other financing sources (uses)				
Debt proceeds	786,621	786,621	-	(786,621)
Transfers in	78,212	67,306	67,306	-
Transfers out	(210,138)	(31,516)	(31,516)	-
Total other financing sources (uses)	654,695	822,411	35,790	(786,621)
Net change in fund balance	(655,247)	(265,314)	168,059	433,373
Fund balance, beginning of year	1,124,282	1,124,282	1,124,282	-
Fund balance, end of year	\$ 469,035	\$ 858,968	\$ 1,292,341	\$ 433,373

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - LOCAL STREET FUND**

FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance With Amended Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ 54,000	\$ 54,000	\$ 118,303	\$ 64,303
State sources	426,428	426,428	379,928	(46,500)
Interest	38,000	38,000	42,796	4,796
Miscellaneous	200	200	-	(200)
Total revenues	518,628	518,628	541,027	22,399
Expenditures				
Public works	1,321,871	1,433,996	1,820,360	(386,364)
Debt service				
Principal	92,500	92,500	92,500	-
Interest	26,773	26,773	26,773	-
Total expenditures	1,441,144	1,553,269	1,939,633	(386,364)
Revenues over (under) expenditures	(922,516)	(1,034,641)	(1,398,606)	(363,965)
Other financing sources (uses)				
Transfers in	909,755	895,964	895,964	-
Transfers out	-	(115,699)	(115,699)	-
Total other financing sources	909,755	780,266	780,265	-
Net change in fund balance	(12,761)	(254,375)	(618,341)	(363,965)
Fund balance, beginning of year	1,215,093	1,215,093	1,215,093	-
Fund balance, end of year	\$ 1,202,332	\$ 960,718	\$ 596,752	\$ (363,965)

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

JUNE 30, 2007

	Business-type Activities				Governmental Activities
	Water and Sewer	Parking Deck	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Assets					
Current assets					
Cash and cash equivalents	\$ 2,947,224	\$ 442,445	\$ 1,391,276	\$ 4,780,945	\$ 1,423,928
Accounts receivable	370,485	9,393	1,891	381,769	18,888
Special assessments receivable	91,556	-	-	91,556	-
Inventories	148,155	-	-	148,155	131,628
Restricted cash and cash equivalents	4,135,763	-	-	4,135,763	-
Total current assets	7,693,183	451,838	1,393,167	9,538,188	1,574,444
Noncurrent assets					
Capital assets not being depreciated	731,487	-	156,472	887,959	120,290
Capital assets, net of depreciation	40,628,111	6,822,478	17,178	47,467,767	1,287,931
Total noncurrent assets	41,359,598	6,822,478	173,650	48,355,726	1,408,221
Total assets	49,052,781	7,274,316	1,566,817	57,893,914	2,982,665
Liabilities					
Current liabilities					
Accounts payable	21,379	422	1,769	23,570	55,502
Accrued expenses	346,726	42,596	2,421	391,743	36,135
Current portion of bonds payable	2,040,000	85,000	-	2,125,000	-
Total current liabilities	2,408,105	128,018	4,190	2,540,313	91,637
Noncurrent liabilities					
Compensated absences	130,087	-	10,868	140,955	25,141
Bonds payable, net of current portion	27,183,251	5,835,000	-	33,018,251	-
Total noncurrent liabilities	27,313,338	5,835,000	10,868	33,159,206	25,141
Total liabilities	29,721,443	5,963,018	15,058	35,699,519	116,778
Net assets					
Invested in capital assets, net of related debt	12,136,347	902,478	173,650	13,212,475	1,408,221
Unrestricted	7,194,991	408,820	1,378,109	8,981,920	1,457,666
Total net assets	\$ 19,331,338	\$ 1,311,298	\$ 1,551,759	\$ 22,194,395	\$ 2,865,887

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

JUNE 30, 2007

Reconciliation of net assets on the statement of net assets for enterprise funds to net assets of business-type activities on the statement of net assets

Net assets - total enterprise funds \$ 22,194,395

Amounts reported for business-type activities in the statement of net assets are different because

An internal service fund is used by management to charge the costs of certain equipment usage to certain DPW site activities to individual proprietary funds. Assets and liabilities of this internal service fund are included in business-type activities in the statement of net assets.

Add: portion of internal service funds net assets attributable to business-type funds 89,891

Net assets of business-type activities \$ 22,284,286

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water and Sewer	Parking Deck	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating revenues					
Charges for services	\$ 5,381,225	\$ 25,425	\$ 150,856	\$ 5,557,506	\$ 1,310,418
Operating expenses					
Staff support	1,004,420	-	-	1,004,420	-
Pump station	614,978	-	-	614,978	-
Transmission and distribution	468,108	-	-	468,108	-
Operating meters	178,226	-	-	178,226	-
Sewage treatment	798,187	-	-	798,187	-
Parking lot expenses	-	-	183,979	183,979	-
Parking deck expenses	-	30,046	-	30,046	-
Operation of equipment	-	-	-	-	1,025,100
Depreciation	1,105,124	147,673	2,664	1,255,461	259,524
Miscellaneous	16,709	-	-	16,709	-
Total operating expenses	4,185,752	177,719	186,643	4,550,114	1,284,624
Operating income (loss)	1,195,473	(152,294)	(35,787)	1,007,392	25,794
Nonoperating revenues (expenses)					
Interest revenue	243,863	18,383	13,915	276,161	49,776
Miscellaneous revenue	204,326	-	-	204,326	179,108
Local contribution	-	216,230	-	216,230	-
Interest expense	(1,024,127)	(256,663)	-	(1,280,790)	-
Total nonoperating revenues (expenses)	(575,938)	(22,050)	13,915	(584,073)	228,884
Income (loss) before transfers	619,535	(174,344)	(21,872)	423,319	254,678
Transfers					
Transfers in	466,900	22,910	178,213	668,023	59,458
Transfers out	(286,419)	-	(26,200)	(312,619)	-
Total transfers	180,481	22,910	152,013	355,404	59,458
Change in net assets	800,016	(151,434)	130,141	778,723	314,136
Net assets, beginning of year, as previously reported	18,589,825	1,462,732	1,425,735	21,478,292	2,563,548
Prior period adjustment	(58,503)	-	(4,117)	(62,620)	(11,797)
Net assets, beginning of year, as restated	18,531,322	1,462,732	1,421,618	21,415,672	2,551,751
Net assets, end of year	\$ 19,331,338	\$ 1,311,298	\$ 1,551,759	\$ 22,194,395	\$ 2,865,887

Continued...

CITY OF SAULT STE. MARIE
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

Reconciliation of the statement of revenues, expenses and changes in net assets of enterprise funds to the statement of activities.

Change in net assets - all enterprise funds	\$ 778,723
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Amounts reported for business-type activities in the statement of activities are different because

An internal service fund is used by management to charge the costs of certain activities to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with business-type activities.

Add - change in net assets	<u>83,301</u>
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Change in net assets of business-type activities	<u><u>\$ 862,024</u></u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	Business-type Activities			Governmental Activities
	Water and Sewer	Parking Deck	Nonmajor Enterprise Funds	Total Enterprise Funds
Cash flows from operating activities				
Cash collected from customers	\$ 5,447,527	\$ 16,032	\$ 150,856	\$ 5,614,415
Cash collected from other funds	-	-	-	1,296,207
Cash paid for employee wages and benefits	(1,454,526)	(4,078)	(110,584)	(1,569,188)
Cash paid for other operating and administrative expenses	(1,617,076)	(34,077)	(76,697)	(1,727,850)
Net cash provided by (used in) operating activities	2,375,925	(22,123)	(36,425)	2,317,377
Cash flows from noncapital financing activities				
Transfers in	466,900	22,910	178,213	668,023
Transfers out	(286,419)	-	(26,200)	(312,619)
Payment of amounts due from other funds	-	358,000	-	358,000
Miscellaneous revenue	204,326	-	-	204,326
Change in accrued compensated absences	17,470	-	2,929	20,399
Net cash provided by noncapital financing activities	402,277	380,910	154,942	938,129
Cash flows from capital and related financing activities				
Interest payments	(1,024,127)	(256,663)	-	(1,280,790)
Debt proceeds	7,770	-	-	7,770
Principal payments	(1,955,000)	(80,000)	-	(2,035,000)
Local contributions	-	216,230	-	216,230
Special assessment collections	25,577	-	-	25,577
Purchase of property and equipment	(654,505)	(104,691)	(8,643)	(767,839)
Net cash used in capital and related financing activities	(3,600,285)	(225,124)	(8,643)	(3,834,052)
Cash flows from investing activities				
Sale of investments	1,079,027	10,548	73,515	1,163,090
Interest revenue	243,863	18,383	13,915	276,161
Net cash provided by investing activities	1,322,890	28,931	87,430	1,439,251
Net increase in cash and cash equivalents	500,807	162,594	197,304	860,705
Cash and cash equivalents, beginning of year	6,582,180	279,851	1,193,972	8,056,003
Cash and cash equivalents, end of year	\$ 7,082,987	\$ 442,445	\$ 1,391,276	\$ 8,916,708

Continued...

CITY OF SAULT STE. MARIE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Business-type Activities				Governmental Activities
	Water and Sewer	Parking Deck	Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Operating income (loss)	\$ 1,195,473	\$ (152,294)	\$ (35,787)	\$ 1,007,392	\$ 25,794
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation	1,105,124	147,673	2,664	1,255,461	259,524
Changes in assets and liabilities which provided (used) cash					
Accounts receivable	66,302	(9,393)	(1,057)	55,852	(14,211)
Inventories	196	-	-	196	(25,007)
Accounts payable	6,227	252	(4,666)	1,813	7,382
Accrued expenses	2,603	(8,361)	2,421	(3,337)	36,135
Net cash provided by (used in) operating activities	\$ 2,375,925	\$ (22,123)	\$ (36,425)	\$ 2,317,377	\$ 289,617

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Employee Benefits Plan	Agency Fund
Assets		
Cash and cash equivalents	\$ -	\$ 179,076
Taxes receivable	825,021	-
Restricted investments		
Money market	130,281	49,581
Mutual funds	6,149,872	2,797
Corporate bonds	-	194,942
Equity securities	6,962,671	586,369
Prepays	113,467	-
Total assets	<u>14,181,312</u>	<u>\$ 1,012,765</u>
Liabilities		
Accrued liabilities	-	\$ 913,879
Due to other governmental units	-	98,886
Unearned revenue	825,021	-
Total liabilities	<u>825,021</u>	<u>\$ 1,012,765</u>
Net assets held in trust for pension benefits	<u>\$ 13,356,291</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF SAULT STE. MARIE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
EMPLOYEE BENEFIT PLAN
FOR THE YEAR ENDED JUNE 30, 2007

Additions to net assets attributed to	
Contributions	
Tax revenue/employer contribution	\$ 830,239
Employee	<u>166,400</u>
Total contributions	<u>996,639</u>
Net appreciation in fair value of investments	1,162,557
Interest and dividends	<u>506,098</u>
Total additions	<u>2,665,294</u>
Deductions from net assets attributed to	
Benefit payments	1,359,028
Administrative expenses	<u>(229,028)</u>
Total deductions	<u>1,130,000</u>
Change in net assets	1,535,294
Net assets, beginning of year	<u>11,820,997</u>
Net assets, end of year	<u>\$ 13,356,291</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of Sault Ste. Marie* (the “City”) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Units. The Downtown Development Authority (DDA)/TIFA (TIFA III), Economic Development Corporation (EDC), and Bayliss Public Library (Library), are reported in separate columns to emphasize that they are legally separate from the City. The members of the governing Boards are appointed by the City Commission and the budgets and expenditures must be approved by the City Commission. The City also has the ability to significantly influence operations of these organizations. Separate financial statements of the DDA/TIFA III have not been prepared. Separate financial statements of the EDC are available at Economic Development Corporation, 1301 W. Easterday, Sault Ste. Marie, MI 49783. Separate financial statements of the Library are available at Bayliss Public Library, 541 Library Drive, Sault Ste. Marie, MI 49783.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street and highway purposes.

The *Capital Projects Fund* accounts for the activity related to the City's new parking deck and various other projects.

The City reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the operation, maintenance and development of water and sewer facilities.

The *Parking Deck Fund* accounts for the operation and maintenance of the downtown parking deck.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Capital Projects Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent Funds. The Seal Trust, Governor Osborn Trust, and Cemetery Perpetual Care Trust are the City's Permanent Funds. The principal portion of these funds must stay intact, but the interest earnings are used to provide for purposes defined by each trust.

Enterprise Funds. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. These funds account for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Pension Trust Fund. This fund accounts for the activities of the City's employee retirement system, which accumulates resources for retirement benefit payments to qualified employees.

Agency Fund. This fund accounts for assets held for other governments and employees in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and investments

Most cash balances in the various funds are pooled and invested in money market accounts, Municipal Investment accounts and U.S. Government Securities and Treasury Notes. Interest earned with pooled cash is allocated to each of the funds based on the fund's average equity balance. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents" and "Investments." The cash resources of the debt service and trust and agency funds are invested separately as required by law.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorizes the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted of certificates of deposit and an employer benefit plan for pension trust investments.

2. Receivables and payables

All receivables are reported at their gross value, except the General Fund ambulance receivable which is shown net of an estimated allowance for uncollectible accounts of \$164,300.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

3. *Property taxes*

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Chippewa County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

4. *Inventories*

All inventories are valued at cost using the first-in/first-out (FIFO) method.

5. *Restricted assets*

Certain resources are set aside for repayment of the City's Water and Sewer Enterprise Fund revenue bonds and are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

6. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-15
Marina	7-40
Buildings and building improvements	15-40
Public domain infrastructure	10-50
Water and wastewater system infrastructure	20-75
Vehicles	5-20
Machinery and equipment	5-25

7. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

8. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

9. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

CITY OF SAULT STE. MARIE
NOTES TO FINANCIAL STATEMENTS

B. Excess of expenditures over appropriations

	<u>Final</u> <u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund			
Health and welfare	\$ 1,297,129	\$ 1,485,285	\$ 188,156
Culture and recreation	1,321,334	1,368,607	47,273
Local Street Fund			
Public works	1,433,996	1,820,360	386,364

Expenditures in excess of budgeted amounts at the functional level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund and the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Local Street Fund.

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2007:

	<u>Primary</u> <u>Government</u>	<u>Component</u> <u>Units</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 15,880,164	\$ 2,085,534	\$ 17,965,698
Investments	-	351,362	351,362
Restricted cash and cash equivalents	4,135,763	-	4,135,763
Restricted investments	<u>2,392,489</u>	<u>166,549</u>	<u>2,559,038</u>
Total Statement of Net Assets	<u>\$ 22,408,416</u>	<u>\$ 2,603,445</u>	<u>25,011,861</u>
Statement of Fiduciary Net Assets			
Cash and cash equivalents			179,076
Restricted investments			<u>14,076,513</u>
Total deposits and investments			<u>\$ 39,267,450</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

A reconciliation of cash and cash equivalents and investments as shown above to the captions used for note disclosures is as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 24,080,856
Investments	15,184,001
Cash on hand	<u>2,593</u>
Total deposits	<u>\$ 39,267,450</u>

The City is authorized by state statutes to invest surplus funds in the following:

- (a) Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- (d) In banker's acceptances of United States banks.
- (e) Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service.
- (f) Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (g) External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City investment policy allows for all of these types of investments.

Certain investments are accounted for in the Employee Benefits Fund. These investments are allowed per the Public Employees Retirement System Investment Act, Public Act 314.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

The City chooses to aggregate its investments for disclosure purposes. As of year end, the City had the following investments:

Investments at fair value, as determined by quoted market price.

U.S. Government securities	\$ 1,028,073
Corporate bonds	194,942
Money Market Fund	259,277
Equity securities	7,549,040
Mutual funds	<u>6,152,669</u>
Total investments	<u>\$ 15,184,001</u>

Certificates of deposit of \$1,802,912 are considered bank deposits for risk purposes.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

	<u>Investment Maturities (fair value by years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Government securities	\$1,028,073	\$ -	\$ -	\$ -	\$1,028,073
Corporate bonds	<u>194,942</u>	<u>27,979</u>	<u>154,709</u>	<u>12,254</u>	<u>-</u>
Total	<u>\$1,223,015</u>	<u>\$ 27,979</u>	<u>\$ 154,709</u>	<u>\$ 12,254</u>	<u>\$1,028,073</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for investments are identified as follows for investments held at year end.

AAA	\$ 1,029,990
AA	53,010
A	72,304
BAA	<u>67,711</u>
	<u>\$ 1,223,015</u>

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$22,433,948 of the City's bank balance of \$23,143,399 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterpart the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. As of June 30, 2007, the City has no custodial credit risk exposure for any of its investments.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of June 30, 2007:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
Accounts receivable	\$ 421,208	\$ 381,769	\$ 257,877
Special assessment receivable, due within one year	122,346	6,513	31,796
Special assessment receivable, due in more than one year	2,347,872	85,043	7,330
Taxes receivable	4,866,188	-	-
Due from other governmental units	<u>1,087,226</u>	<u>-</u>	<u>-</u>
Total receivables, net	<u>\$ 8,844,840</u>	<u>\$ 473,325</u>	<u>\$ 297,003</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$7,336,406, of which \$4,866,188 is for taxes and \$2,470,218 is for special assessments.

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2007:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,680,231	\$ -	\$ -	\$ 1,680,231
Construction-in-process	<u>1,030,785</u>	<u>1,118,161</u>	<u>(894,644)</u>	<u>1,254,302</u>
Total capital assets not being depreciated	<u>2,711,016</u>	<u>1,118,161</u>	<u>(894,644)</u>	<u>2,934,533</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Buildings	\$ 6,284,164	\$ 1,213,584	\$ -	\$ 7,497,748
Land improvements	3,433,232	209,684	-	3,642,916
Equipment	7,583,513	921,941	(1,115,332)	7,390,122
Infrastructure	<u>47,830,572</u>	<u>1,807,390</u>	<u>-</u>	<u>49,637,962</u>
Total capital assets being depreciated	<u>65,131,481</u>	<u>4,152,599</u>	<u>(1,115,332)</u>	<u>68,168,748</u>
Less accumulated depreciation for				
Buildings	(2,629,291)	(261,904)	-	(2,891,195)
Land improvements	(747,431)	(136,546)	-	(883,977)
Equipment	(5,055,596)	(563,840)	1,106,578	(4,512,858)
Infrastructure	<u>(18,902,459)</u>	<u>(1,172,879)</u>	<u>-</u>	<u>(20,624,338)</u>
Total accumulated depreciation	<u>(27,334,777)</u>	<u>(2,684,169)</u>	<u>1,106,578</u>	<u>(28,912,368)</u>
Total capital assets being depreciated, net	<u>37,796,704</u>	<u>1,468,430</u>	<u>(2,221,910)</u>	<u>39,256,380</u>
Governmental activities capital assets, net	<u>\$ 40,507,720</u>	<u>\$ 2,586,591</u>	<u>\$ (3,116,554)</u>	<u>\$ 42,190,913</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 164,243	\$ -	\$ -	\$ 164,243
Construction-in-progress	<u>661,491</u>	<u>89,465</u>	<u>(27,240)</u>	<u>723,716</u>
Total capital assets not being depreciated	<u>825,734</u>	<u>89,465</u>	<u>(27,240)</u>	<u>887,959</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Buildings and improvements	\$ 23,544,849	\$ 104,691	\$ (4,243)	\$ 23,645,297
Equipment	2,492,809	179,725	(525,196)	2,147,338
Water and sewer	<u>39,880,851</u>	<u>434,047</u>	<u>(466,624)</u>	<u>39,848,274</u>
Total capital assets being depreciated	<u>65,918,509</u>	<u>718,463</u>	<u>(996,063)</u>	<u>65,640,909</u>
Less accumulated depreciation for				
Buildings and improvements	(8,766,144)	(377,702)	11,992	(9,131,854)
Equipment	(1,392,524)	(75,754)	512,347	(955,931)
Water and sewer	<u>(7,749,976)</u>	<u>(802,005)</u>	<u>466,624</u>	<u>(8,085,357)</u>
Total accumulated depreciation	<u>(17,908,644)</u>	<u>(1,255,461)</u>	<u>990,963</u>	<u>(18,173,142)</u>
Total capital assets being depreciated, net	<u>48,009,865</u>	<u>(536,998)</u>	<u>(5,100)</u>	<u>47,467,767</u>
Business-type activities capital assets, net	<u>\$ 48,835,599</u>	<u>\$ (447,533)</u>	<u>\$ (32,340)</u>	<u>\$ 48,355,726</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 21,084
Public safety	214,229
Public works	1,903,099
Culture and recreation	286,233
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>259,524</u>

Total depreciation expense – governmental activities **\$ 2,684,169**

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Business-type activities

Water and sewer	\$ 1,105,124
Parking deck	147,673
Parking	<u>2,664</u>

Total depreciation expense – business-type activities **\$ 1,255,461**

Component Unit – Economic Development Corporation

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated				
Vehicles	15,771	-	-	15,771
Equipment	<u>20,899</u>	<u>-</u>	<u>-</u>	<u>20,899</u>
Subtotal	<u>36,670</u>	<u>-</u>	<u>-</u>	<u>36,670</u>
Accumulated depreciation				
Vehicles	(12,617)	(3,154)	-	(15,771)
Equipment	<u>(12,595)</u>	<u>(1,689)</u>	<u>-</u>	<u>(14,284)</u>
Total accumulated depreciation	<u>(25,212)</u>	<u>(4,843)</u>	<u>-</u>	<u>(30,055)</u>
Capital assets being depreciated, net	<u>11,458</u>	<u>(4,843)</u>	<u>-</u>	<u>6,615</u>
Component Unit - EDC capital assets, net	<u>\$ 31,458</u>	<u>\$ (4,843)</u>	<u>\$ -</u>	<u>\$ 26,615</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Component Unit – Bayliss Public Library

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 22,822	\$ -	\$ -	\$ 22,822
Capital assets being depreciated				
Buildings	475,203	-	-	475,203
Land improvements	15,250	-	-	15,250
Furniture and equipment	172,957	8,663	(6,662)	174,958
Book collection	<u>323,468</u>	<u>48,406</u>	<u>-</u>	<u>371,874</u>
Total capital assets being depreciated	<u>986,878</u>	<u>57,069</u>	<u>(6,662)</u>	<u>1,037,285</u>
Less accumulated depreciation for				
Buildings	(361,735)	(11,992)	-	(373,727)
Land improvements	(15,250)	-	-	(15,250)
Furniture and equipment	(143,185)	(14,241)	6,111	(151,315)
Book collection	<u>(225,306)</u>	<u>(17,282)</u>	<u>-</u>	<u>(242,588)</u>
Total accumulated depreciation	<u>(745,476)</u>	<u>(43,515)</u>	<u>6,111</u>	<u>(782,880)</u>
Total capital assets being depreciated, net	<u>241,402</u>	<u>13,554</u>	<u>(551)</u>	<u>254,405</u>
Component Unit - Library capital assets, net	<u>\$ 264,224</u>	<u>\$ 13,554</u>	<u>\$ (551)</u>	<u>\$ 277,227</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows as of June 30, 2007:

	Governmental Activities	Business-type Activities	Component Units
Accounts payable	\$ 610,034	\$ 23,570	\$ 57,592
Accrued expenses	<u>382,142</u>	<u>391,743</u>	<u>14,655</u>
Total accounts payables and accrued expenses	<u>\$ 992,176</u>	<u>\$ 415,313</u>	<u>\$ 72,247</u>

E. Interfund receivables, payables and transfers

Transfers to and from component units were made to cover debt payments, indirect operating costs, and local match of grants.

Interfund transfers consisted of the following for the year ended June 30, 2007:

	Transfers out			Subtotal
	Major Street	Local Streets	Nonmajor Enterprise Funds	Transfers In
<u>Transfers in</u>				
General Fund	\$ -	\$ -	\$ 10,000	\$ 10,000
Water and Sewer	-	-	16,200	16,200
Nonmajor governmental funds	<u>31,516</u>	<u>115,699</u>	<u>-</u>	<u>147,215</u>
Subtotal transfers out	<u>\$ 31,516</u>	<u>\$ 115,699</u>	<u>\$ 26,200</u>	<u>\$ 173,415</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Transfers out</u>			<u>Subtotal Transfers In</u>
	<u>General Fund</u>	<u>Water and Sewer</u>	<u>Nonmajor Governmental Funds</u>	
<u>Transfers in</u>				
General Fund	\$ -	\$ -	\$ 249,538	\$ 249,538
Major Street	10,906	-	56,400	67,306
Local Street	366,848	-	529,116	895,964
Water and Sewer	210,000	-	240,700	450,700
Parking Deck	-	22,910	-	22,910
Nonmajor governmental funds	75,305	40,000	466,087	581,392
Nonmajor enterprise funds	-	175,969	2,244	178,213
Internal service funds	<u>11,918</u>	<u>47,540</u>	<u>-</u>	<u>59,458</u>
Subtotal transfers out	<u>\$ 674,977</u>	<u>\$ 286,419</u>	<u>\$ 1,544,085</u>	<u>\$ 2,505,481</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2007</u>	<u>Due Within 1 Year</u>
<u>Primary Government</u>					
Governmental activities					
2005 General Obligation Limited Tax Bonds maturing serially to 2016 in annual installments beginning November 2006 ranging from \$115,000 to \$175,000 bearing interest ranging from 2.50% to 3.75%.	\$ 1,500,000	\$ -	\$ (50,000)	\$ 1,450,000	\$ 115,000
2000 Michigan Transportation Authority Bonds maturing serially to 2015 in annual installments ranging from \$25,000 to \$160,000 and bearing interest ranging from 5.00% to 5.30%.	725,000	-	(5,000)	720,000	25,000
1997 Building Authority Bonds maturing serially to 2015 in annual installments ranging from \$45,000 to \$70,000 and bearing interest ranging from 5.15% to 5.50%.	545,000	-	(40,000)	505,000	45,000
1997 Michigan Transportation Authority Bonds maturing serially to 2012 in annual installments ranging from \$75,000 to \$95,000 and bearing interest ranging from 5.10% to 5.30%.	495,000	-	(70,000)	425,000	75,000
1994 Recreational Building Authority note maturing serially to 2019 in annual installments of \$35,000 including interest at 5.38%.	316,048	-	(17,713)	298,335	18,651

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2007</u>	<u>Due Within 1 Year</u>
1991 Michigan Transportation Fund Bonds maturing serially to 2006 in annual installment of \$75,000 and bearing interest at 6.50%.	\$ 75,000	\$ -	\$ (75,000)	\$ -	\$ -
2004 Building Authority Note maturing in 2009 with monthly installments of \$230 including interest at 3.494%.	7,925	-	(2,522)	5,403	2,611
2004 CDBG non-interest bearing loan, due in equal annual installments of \$39,500 for 10 years beginning July 1, 2005.	365,375	-	(39,500)	325,875	39,500
1994 Limited Tax General Obligation Downtown Development Bonds maturing serially to 2007 in annual installment of \$245,000 and bearing interest at 5.90%.	245,000	-	(245,000)	-	-
1991 Limited Tax General Obligation Downtown Development Bonds maturing serially to 2006 in annual installment of \$50,000 and bearing interest at 6.90%.	50,000	-	(50,000)	-	-
1994 Tax Increment Financing Authority Bonds maturing serially to 2007 in annual installment of \$85,000 and bearing interest at 6.10%.	85,000	-	(85,000)	-	-
2006 General Obligation Municipal Installment Purchase Contract Note maturing serially to 2021 in semiannual installments of \$31,518 including interest at 4.60%.	-	677,617	(15,931)	661,686	32,973

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2007</u>	<u>Due Within 1 Year</u>
2006 Installment Purchase Note, maturity in 2011 with monthly installments of \$953 including interest at 4.49%	\$ 50,366	\$ -	\$ (9,336)	\$ 41,030	\$ 9,766
Subtotal	<u>4,459,714</u>	<u>677,617</u>	<u>(705,002)</u>	<u>4,432,329</u>	<u>363,501</u>
Accrued compensated absences					
Sick	260,761	55,072	(10,546)	305,287	40,046
Vacation	<u>311,923</u>	<u>44,658</u>	<u>-</u>	<u>356,581</u>	<u>-</u>
Subtotal	<u>572,684</u>	<u>99,730</u>	<u>(10,546)</u>	<u>661,868</u>	<u>40,046</u>
Total governmental activities	<u>\$ 5,032,398</u>	<u>\$ 777,347</u>	<u>\$ (715,548)</u>	<u>\$ 5,094,197</u>	<u>\$ 403,547</u>
Business-type activities					
1998 State Drinking Water Revolving Fund Loan maturing serially to 2020 in annual installments ranging from \$195,000 to \$260,000 and bearing interest at 2.50%	\$ 3,120,000	\$ -	\$ (190,000)	\$ 2,930,000	\$ 195,000
2002 General Obligation Limited Tax Bonds maturing serially to 2023 in annual installments ranging from \$65,000 to \$325,000 and bearing interest ranging from 3.00% to 5.25%.	3,350,000	-	(50,000)	3,300,000	65,000
2002 General Obligation Unlimited Tax Refunding Bonds maturing serially to 2010 in annual installments ranging from \$610,000 to \$705,000 and bearing interest ranging from 4.25% to 4.50%	3,235,000	-	(600,000)	2,635,000	610,000
1998 State Revolving Fund Combined Sewer Overflow (CSO) Loan maturing serially to 2020 in annual installments ranging from \$175,000 to \$230,000 and bearing interest at 2.25%.	2,842,230	7,770	(175,000)	2,675,000	180,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2007</u>	<u>Due Within 1 Year</u>
1995 State Revolving Fund CSO Loan maturing serially to 2017 in annual installments ranging from \$190,000 to \$230,000 and bearing interest at 2.25%.	\$ 2,305,000	\$ -	\$ (190,000)	\$ 2,115,000	\$ 190,000
1998 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds maturing serially to 2018 in annual installments ranging from \$105,000 to \$450,000 and bearing interest ranging from 3.90% to 4.25%.	2,350,000	-	(90,000)	2,260,000	105,000
2005 Downtown Development Bonds maturing serially to 2026 in annual installments beginning November 2006 ranging from \$85,000 to \$565,000 bearing interest ranging from 4.25% to 4.40%.	6,000,000	-	(80,000)	5,920,000	85,000
2001 Water Supply and Sewer System Limited Tax General Obligation Bonds maturing serially to 2022 in annual installments ranging from \$65,000 to \$260,000 and bearing interest ranging from 4.00% to 5.00%.	2,410,000	-	(65,000)	2,345,000	65,000
1995 Water Supply and Sewage Disposal System Limited Tax General Obligation Bonds maturing serially to 2015 in annual installments ranging from \$180,000 to \$280,000 and bearing interest at 5.00%.	2,190,000	-	(160,000)	2,030,000	180,000
2002 Clean Water Program State Revolving Fund CSO General Obligation Limited Tax Sewage Disposal System Bonds maturing serially to 2024 in annual installments ranging from \$145,000 to \$210,000 and bearing interest at 2.50%.	3,114,880	-	(140,000)	2,974,880	145,000

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2007</u>	<u>Due Within 1 Year</u>
2003 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply System Improvement Revenue Bonds maturing serially to 2024 in annual installments ranging from \$130,000 to \$195,000 and bearing interest at 2.50%.	\$ 2,877,764	\$ -	\$ (130,000)	\$ 2,747,764	\$ 130,000
2001 Drinking Water Revolving Fund Program General Obligation Limited Tax Water Supply System Improvement Revenue Bonds maturing serially to 2023 in annual installments ranging from \$80,000 to \$110,000 and bearing interest at 2.50%.	1,575,607	-	(75,000)	1,500,607	80,000
1997 Limited Tax General Obligation Bonds maturing serially to 2017 in annual installments ranging from \$35,000 to \$65,000 and bearing interest ranging from 4.90% to 5.30%.	575,000	-	(35,000)	540,000	35,000
1997 State Water Pollution Control Revolving Fund Limited Tax General Obligation Bonds maturing serially to 2018 in annual installments ranging from \$30,000 to \$35,000 and bearing interest at 2.25%.	435,000	-	(30,000)	405,000	30,000
2005 General Obligation Limited Tax Bonds (Series B) maturing serially to 2025 in installments ranging from \$25,000 to \$60,000 and bearing interest from 3.85% to 4.625%.	<u>790,000</u>	<u>-</u>	<u>(25,000)</u>	<u>765,000</u>	<u>30,000</u>
Subtotal	<u>37,170,481</u>	<u>7,770</u>	<u>(2,035,000)</u>	<u>35,143,251</u>	<u>2,125,000</u>

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2007</u>	<u>Due Within 1 Year</u>
Accrued compensated absences					
Sick	\$ 57,936	\$ 11,357	\$ -	\$ 69,293	\$ 10,857
Vacation	<u>62,620</u>	<u>9,042</u>	<u>-</u>	<u>71,662</u>	<u>-</u>
Subtotal	<u>120,556</u>	<u>20,399</u>	<u>-</u>	<u>140,955</u>	<u>10,857</u>
Total business-type activities	<u>\$37,291,037</u>	<u>\$ 41,523</u>	<u>\$(2,035,000)</u>	<u>\$35,284,206</u>	<u>\$ 2,135,857</u>

Component Units

Economic Development Corporation

Accrued compensated absences	<u>\$ 6,513</u>	<u>\$ 300</u>	<u>\$ -</u>	<u>\$ 6,813</u>	<u>\$ -</u>
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Bayliss Public Library

Accrued compensated absences	<u>\$ 20,180</u>	<u>\$ 680</u>	<u>\$ -</u>	<u>\$ 20,860</u>	<u>\$ -</u>
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Accrued compensated absences are generally liquidated by the General Fund for governmental activities, the Water and Sewer Fund for the business-type activities and the Economic Development Corporation and Bayliss Public Library for the component units.

Annual debt service requirements to maturity for the above obligations except for accrued compensated absences are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 363,501	\$ 178,198	\$ 2,125,000	\$ 1,194,342
2009	396,706	164,396	2,205,000	1,120,952
2010	432,040	149,209	2,320,000	1,042,494
2011	444,478	132,686	2,415,000	959,476
2012	452,060	115,124	1,865,000	885,954
2013-2017	2,030,574	272,137	10,350,000	3,435,288
2018-2022	312,970	40,692	9,375,000	1,668,180
2023-2027	<u>-</u>	<u>-</u>	<u>4,488,251</u>	<u>355,272</u>
Total	<u>\$ 4,432,329</u>	<u>\$ 1,052,442</u>	<u>\$ 35,143,251</u>	<u>\$ 10,661,958</u>

Total interest expense for the City for the year ending June 30, 2007 was \$1,473,161.

CITY OF SAULT STE. MARIE
NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION

A. Defined Benefit Pension Plan

Primary Government

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 0.00% to 6.71% of annual covered payroll. City employees currently make no contribution to the Plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

The required contribution of \$188,066 was equal to the annual pension cost and actual contribution, and was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.5% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's overfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the last actuarial valuation, was 30 years.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$ 143,911	100%	\$ -
6/30/06	135,738	100%	-
6/30/07	188,066	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Over- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$ 17,503,766	\$17,447,662	\$ (56,104)	100%	\$3,670,545	0%
12/31/03	18,223,939	18,105,810	(118,129)	101%	3,743,216	0%
12/31/04	18,890,155	19,779,167	889,012	96%	3,545,698	25%
12/31/05	19,428,237	19,949,324	521,087	97%	3,577,745	15%
12/31/06	19,430,327	20,110,296	679,969	97%	3,381,141	20%

Fire and Police Department Pension and Retirement Plan (Act 345)

Plan Description

The City of Sault Ste. Marie contributes to the City of Sault Ste. Marie Firemen and Policemen Retirement System (the "Retirement System"), which is based on Act No. 345 of the Public Acts of 1937, as amended. The Retirement System is a single employer, contributory defined benefit pension plan (the "Plan"). The City of Sault Ste. Marie is the Administrator of the Plan. Administrative costs of the Plan are financed through investment earnings. The Plan is included as a pension trust fund in the City's financial statements and a stand alone financial report of the Plan has not been issued.

Substantially, all full-time Fire and Police Department employees are eligible to participate in the Retirement System. Benefits vest after ten years of service. Fire Department employees who retire at age 50 with 25 or more years of service or age 60 regardless of years of service are entitled to retirement benefits equal to 2.8% of three-year average final compensation times the first 25 years of credited service plus 1% of average final compensation for each year in excess of 25 years of service. Police patrol employees who retire with 20 or more years of service or age 60, regardless of years of service, are entitled to retirement benefits equal to 2.8% of three-year average final compensation times first 25 years of service with a maximum of 70% of average final compensation. Police sergeants

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

hired after July 1, 2002 who retire with 25 or more years service regardless of age or age 60 regardless of service are entitled to a straight life pension equal to 2.8% of three-year average final compensation times year of service with a maximum of 75% average final compensation (Plan B). Police sergeants hired prior to July 1, 2002 are entitled to Plan B as described above or retirees with 20 or more years of service regardless of age or age 60 regardless service are entitled to straight life pension equal to 2.6% of three-year average compensation times first 25 years of service plus 1% of average final compensation times years of service in excess of 25 years with a maximum of 80% average final compensation.

A post retirement benefit increase of 2% and 1% respectively, times the number of full years retired for persons retired prior and subsequent to July 1, 1976 respectively, was made effective July 1, 1988. The Plan does not include provisions for other early retirement. Mandatory retirement occurs at age 65.

The Retirement System also provides death and disability benefits, which is, computed in the same manner as the retirement benefit at age 55, reduced to 1.5% of average final compensation for non-duty disability. The duty disability benefit is 50% of average final compensation.

If an employee terminates his or her employment with the Police or Fire Departments and is not eligible for any other benefits under the Plan, the employee is entitled to receive a refund of his or her accumulated contribution plus interest.

Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which they are due. The City's contributions to the Plan are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments

Investments are reported at fair value which is determined using selected bases as follows: short-term investments are reported at cost, which approximates fair value; securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; investments that do not have established fair values are reported at estimated fair value; and cash deposits are reported at carrying amounts which reasonably estimates fair value.

No single investment comprised more than five percent of the total investments for the Police and Fire Retirement at June 30, 2007.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Funding Policy

Covered employees contribute 5.6% (Firefighters and Police Sergeants) to 7.5% (Police Patrol) of their annual compensation. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by statute.

Annual Pension Cost

The Plan's annual pension cost of \$830,239 was equal to the Plan's required and actual contributions for the current year.

The annual required contribution for the current year was determined as part of a June 30, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 8.8% to 5.2% per year. Both (a) and (b) included an inflation component of 5.00%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2006 was 30 years.

Bayliss Public Library -Component Unit

Plan Description

Bayliss Public Library's (a component unit of the City of Sault Ste. Marie, Michigan), (the "Library") defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Library is required to contribute at an actuarially determined rate. The Library is currently required to make no contributions to the Plan. Library employees are also currently not required to make contributions. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.5% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the last actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$ -	0%	\$ -
6/30/06	-	0%	-
6/30/07	-	0%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Over- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$ 1,017,843	\$ 812,901	\$ 204,942	125%	\$ 150,842	0%
12/31/03	986,076	553,784	432,292	178%	140,820	0%
12/31/04	1,026,782	522,890	503,892	196%	184,224	0%
12/31/05	1,067,818	566,224	501,594	189%	198,525	0%
12/31/06	1,135,751	582,433	553,433	195%	212,547	0%

B. Commitments and Contingencies

The City received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2007.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

The City leases, under operating lease arrangements, administrative office space and various parcels of land for use as parking lots. The City is also responsible for maintenance and operating expense relating to the property. In addition, the City has entered into an agreement with the Sault Ste. Marie Country Club (the "Club") whereby the Club leases the golf course from the City for an annual lease fee which is equivalent to the City's required \$35,000 payment to the Building Authority to retire its \$475,000 note payable. The balance of this note payable was \$296,906 at June 30, 2007.

The City leases utility cart equipment to the Club whereby the Club leases the equipment from the City for an annual lease fee, which is equivalent to the City's required \$2,758 payment to the Building Authority to retire its \$12,730 note payable. The balance of this note payable was \$5,403 at June 30, 2007.

The City leases lawn mowing equipment to the Club whereby the Club leases the equipment from the City for an annual lease fee, which is equivalent to the City's required \$11,436 payment to retire its \$51,121 note payable. The balance of this note payable was \$41,030 at June 30, 2007.

In accordance with an agreement, Chippewa County annually purchases real property taxes and delinquent special assessments (included on the tax bills), which have not been paid as of March 1 from the City. The County has recourse against the City for amounts which remain unpaid.

The City is involved in various lawsuits now pending. It is the opinion of the City and of its counsel that the outcome of the various lawsuits will not materially affect the operations or the financial position of the City. The amount of all legal costs relating to such actions is not currently determinable.

The City's clerical personnel union contract expired June 30, 2006. The City is still in negotiations with this union and the effect the final contract will have on the June 30, 2007 financial statements cannot be estimated.

C. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's current liability and property insurance is through Municipal Underwriters of Michigan representing Gulf Insurance Group.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF SAULT STE. MARIE

NOTES TO FINANCIAL STATEMENTS

D. Prior Period Adjustments

Fund Financial Statements

	<u>Stock and Equipment</u>	<u>Parking</u>	<u>Water and Sewer</u>
Fund balances, beginning of year, as previously reported	\$ 2,165,393	\$ 385,835	\$ 18,589,825
Error in recording vacation accrued compensated absences	<u>(11,797)</u>	<u>(4,117)</u>	<u>(58,503)</u>
Fund balances, beginning of year, as restated	<u>\$ 2,153,596</u>	<u>\$ 381,718</u>	<u>\$ 18,531,322</u>

Government-wide Financial Statements

	<u>Governmental Activities</u>
Net assets, beginning of year, as previously reported	\$ 53,661,933
Error in recording vacation accrued compensated absences	<u>(309,125)</u>
Net assets, beginning of year, as restated	<u>\$ 53,352,808</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SAULT STE. MARIE

REQUIRED SUPPLEMENTARY INFORMATION

City of Sault Ste. Marie Statement No. 25 Required Supplementary Information Firemen and Policemen Retirement System

Six-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 501,393	100%	\$ -
6/30/03	531,046	100%	-
6/30/04	615,959	100%	-
6/30/05	696,387	100%	-
6/30/06	761,823	100%	-
6/30/07	830,239	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Under- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/01	\$ 12,323,362	\$ 16,519,263	\$4,195,901	75%	\$2,215,948	189%
6/30/02	12,198,649	17,439,131	5,240,482	70%	2,157,743	243%
6/30/03	11,819,254	19,043,533	7,224,279	62%	2,279,757	317%
6/30/04	11,600,524	19,529,555	7,929,031	59%	2,267,876	350%
6/30/05	11,590,091	20,238,595	8,648,504	57%	2,288,704	378%
6/30/06	11,115,957	20,321,773	8,605,816	58%	2,257,981	381%

SUPPLEMENTARY INFORMATION

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2007

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Funds	Total
ASSETS					
Cash and cash equivalents	\$ 700,414	\$ -	\$ 5,023,070	\$ 310,810	\$ 6,034,294
Restricted investments	-	-	-	2,392,489	2,392,489
Accounts receivable	-	-	30,565	11,250	41,815
Special assessment receivable	-	-	590,812	-	590,812
Total assets	\$ 700,414	\$ -	\$ 5,644,447	\$ 2,714,549	\$ 9,059,410
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 3,870	\$ -	\$ 32,486	\$ -	\$ 36,356
Deferred revenue	-	-	590,812	-	590,812
Total liabilities	3,870	-	623,298	-	627,168
Fund balances					
Reserved	-	-	-	2,714,549	2,714,549
Unreserved					
Designated	380,639	-	-	-	380,639
Subsequent years' expenditures	27,135	-	-	-	27,135
Undesignated	288,770	-	5,021,149	-	5,309,919
Total fund balances	696,544	-	5,021,149	2,714,549	8,432,242
Total liabilities and fund balances	\$ 700,414	\$ -	\$ 5,644,447	\$ 2,714,549	\$ 9,059,410

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Funds	Total
Revenues					
Taxes	\$ -	\$ -	\$ 249,445	\$ -	\$ 249,445
Special assessments	-	-	188,076	-	188,076
Federal sources	-	-	357,324	-	357,324
State sources	-	-	13,402	-	13,402
Local sources	435,579	391,546	20,900	-	848,025
Charges for services	-	-	-	3,463	3,463
Rental	-	-	81,458	-	81,458
Interest	23,265	-	117,312	135,366	275,943
Miscellaneous	184,881	-	-	-	184,881
Total revenues	643,725	391,546	1,027,917	138,829	2,202,017
Expenditures					
Current					
Culture and recreation	166,331	-	-	-	166,331
Public works	-	-	156,663	-	156,663
Other	20,681	-	-	2,220	22,901
Capital outlay	-	-	671,205	-	671,205
Debt service					
Principal	-	380,000	-	-	380,000
Interest	-	11,546	-	-	11,546
Total expenditures	187,012	391,546	827,868	2,220	1,408,646
Revenues over expenditures	456,713	-	200,049	136,609	793,371
Other financing sources					
Transfers in	221,967	-	531,958	-	753,925
Transfers out	(664,983)	-	(739,804)	(113,980)	(1,518,767)
Total other financing sources (uses)	(443,016)	-	(207,846)	(113,980)	(764,842)
Net change in fund balances	13,697	-	(7,797)	22,629	28,529
Fund balances, beginning of year	682,847	-	5,028,946	2,691,920	8,403,713
Fund balances, end of year	\$ 696,544	\$ -	\$ 5,021,149	\$ 2,714,549	\$ 8,432,242

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2007

	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Project Park
ASSETS				
Cash and cash equivalents	<u><u>\$ 162,820</u></u>	<u><u>\$ 65,389</u></u>	<u><u>\$ 81,429</u></u>	<u><u>\$ 7,891</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ 1,109	\$ -	\$ 515
Fund balances				
Unreserved				
Designated	-	-	-	-
Subsequent years' expenditures	27,135	-	-	-
Undesignated	<u>135,685</u>	<u>64,280</u>	<u>81,429</u>	<u>7,376</u>
Total fund balances	<u><u>162,820</u></u>	<u><u>64,280</u></u>	<u><u>81,429</u></u>	<u><u>7,376</u></u>
Total liabilities and fund balances	<u><u>\$ 162,820</u></u>	<u><u>\$ 65,389</u></u>	<u><u>\$ 81,429</u></u>	<u><u>\$ 7,891</u></u>

Other Special Revenues	Total Nonmajor Special Revenue Funds
\$ 382,885	\$ 700,414

\$ 2,246	\$ 3,870
----------	----------

380,639	380,639
-	27,135
-	288,770
380,639	696,544
\$ 382,885	\$ 700,414

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Seal Trust Operations	Osborn Trust Operations	Gaming Compact	Project Park
Revenues				
Local sources	\$ -	\$ -	\$ 431,429	\$ 4,150
Interest	20,157	2,792	-	316
Miscellaneous	-	-	-	-
Total revenues	20,157	2,792	431,429	4,466
Expenditures				
Culture and recreation	13,776	7,737	-	144,818
Other	-	-	-	-
Total expenditures	13,776	7,737	-	144,818
Revenues over (under) expenditures	6,381	(4,945)	431,429	(140,352)
Other financing sources				
Transfers in	79,740	30,093	-	112,134
Transfers out	(300,134)	(11,400)	(350,000)	-
Total other financing sources (uses)	(220,394)	18,693	(350,000)	112,134
Net change in fund balances	(214,013)	13,748	81,429	(28,218)
Fund balances, beginning of year	376,833	50,532	-	35,594
Fund balances, end of year	\$ 162,820	\$ 64,280	\$ 81,429	\$ 7,376

Other Special Revenues	Total Nonmajor Special Revenue Funds
\$ -	\$ 435,579
-	23,265
184,881	184,881
184,881	643,725
-	166,331
20,681	20,681
20,681	187,012
164,200	456,713
-	221,967
(3,449)	(664,983)
(3,449)	(443,016)
160,751	13,697
219,888	682,847
\$ 380,639	\$ 696,544

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2007

	Lakeshore Subdivison	Ashmun Street Project	CSO	CSO Phase D	CSO Phase B
ASSETS					
Cash and cash equivalents	\$ 5,700	\$ 61,537	\$ 949,130	\$ 603,668	\$ 313,515
Accounts receivable	-	-	-	-	-
Special assessment receivable	-	-	13,154	365,050	120,401
Total assets	\$ 5,700	\$ 61,537	\$ 962,284	\$ 968,718	\$ 433,916
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 8,458	\$ -
Deferred revenue	-	-	13,154	365,050	120,401
Total liabilities	-	-	13,154	373,508	120,401
Fund balances					
Unreserved, designated	5,700	61,537	949,130	595,210	313,515
Total liabilities and fund balances	\$ 5,700	\$ 61,537	\$ 962,284	\$ 968,718	\$ 433,916

Public Works Building	2001 DWRF/SRF Project	CSO Phase C	City County Building	Capital Outlay	Total Nonmajor Capital Project Funds
\$ 1,663,134	\$ 551,387	\$ 67,500	\$ 61,992	\$ 745,507	\$ 5,023,070
-	-	-	30,565	-	30,565
-	92,207	-	-	-	590,812
\$ 1,663,134	\$ 643,594	\$ 67,500	\$ 92,557	\$ 745,507	\$ 5,644,447
\$ -	\$ 1,121	\$ -	\$ 21,557	\$ 1,350	\$ 32,486
-	92,207	-	-	-	590,812
-	93,328	-	21,557	1,350	623,298
1,663,134	550,266	67,500	71,000	744,157	5,021,149
\$ 1,663,134	\$ 643,594	\$ 67,500	\$ 92,557	\$ 745,507	\$ 5,644,447

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR CAPITAL PROJECT FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Lakeshore Subdivision	Ashmun Street Project	CSO	CSO Phase D	CSO Phase B
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	20,010	100,378	45,972
Federal sources	-	-	-	-	-
State sources	-	-	-	-	7,770
Local sources	-	-	-	-	-
Rental	-	-	-	-	-
Interest	-	2,963	46,067	28,162	13,012
Total revenues	-	2,963	66,077	128,540	66,754
Expenditures					
Public works	-	-	-	-	-
Capital outlay	-	-	4,254	33,087	232
Total expenditures	-	-	4,254	33,087	232
Revenues over (under) expenditures	-	2,963	61,823	95,453	66,522
Other financing sources					
Transfers in	-	-	-	-	-
Transfers out	-	-	(58,400)	(71,700)	(83,100)
Total other financing sources (uses)	-	-	(58,400)	(71,700)	(83,100)
Net change in fund balances	-	2,963	3,423	23,753	(16,578)
Fund balances, beginning of year	5,700	58,574	945,707	571,457	330,093
Fund balances, end of year	\$ 5,700	\$ 61,537	\$ 949,130	\$ 595,210	\$ 313,515

Public Works Building	2001 DWRF/SRF Project	CSO Phase C	City County Building	Capital Outlay	Total Nonmajor Capital Project Funds
\$ -	\$ -	\$ -	\$ -	\$ 249,445	\$ 249,445
-	21,716	-	-	-	188,076
-	-	-	-	357,324	357,324
-	-	-	-	5,632	13,402
-	-	-	20,900	-	20,900
-	-	-	81,458	-	81,458
-	23,108	2,269	-	1,731	117,312
-	44,824	2,269	102,358	614,132	1,027,917
-	-	-	156,663	-	156,663
110	5,075	-	-	628,447	671,205
110	5,075	-	156,663	628,447	827,868
(110)	39,749	2,269	(54,305)	(14,315)	200,049
-	-	40,000	54,305	437,653	531,958
-	(24,000)	-	-	(502,604)	(739,804)
-	(24,000)	40,000	54,305	(64,951)	(207,846)
(110)	15,749	42,269	-	(79,266)	(7,797)
1,663,244	534,517	25,231	71,000	823,423	5,028,946
\$ 1,663,134	\$ 550,266	\$ 67,500	\$ 71,000	\$ 744,157	\$ 5,021,149

CITY OF SAULT STE. MARIE

**COMBINING BALANCE SHEET
PERMANENT FUNDS**

JUNE 30, 2007

	Seal Estate Trust	Governor Osborn Trust	Cemetery Perpetual Care	Total Permanent Funds
ASSETS				
Cash and cash equivalents	\$ 33,489	\$ 35,409	\$ 241,912	\$ 310,810
Restricted investments	1,413,073	900,000	79,416	2,392,489
Accounts receivable	11,250	-	-	11,250
Total assets (equal to reserved fund balances)	\$ 1,457,812	\$ 935,409	\$ 321,328	\$ 2,714,549

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - PERMANENT FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Seal Estate Trust	Govenor Osborn Trust	Cemetery Perpetual Care	Total Permanent Funds
Revenues				
Charges for services	\$ -	\$ -	\$ 3,463	\$ 3,463
Interest	82,850	31,527	20,989	135,366
Total revenues	82,850	31,527	24,452	138,829
Expenditures				
Other expenditures	1,110	1,110	-	2,220
Revenues over expenditures	81,740	30,417	24,452	136,609
Other financing sources (uses)				
Transfers out	(73,322)	(30,093)	(10,565)	(113,980)
Net change in fund balances	8,418	324	13,887	22,629
Fund balances, beginning of year	1,449,394	935,085	307,441	2,691,920
Fund balances, end of year	\$ 1,457,812	\$ 935,409	\$ 321,328	\$ 2,714,549

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2007

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement	Water Equipment Replacement	Total Nonmajor Enterprise Funds
Assets					
Current assets					
Cash and cash equivalents	\$ 185,141	\$ (1,890)	\$ 959,288	\$ 248,737	\$ 1,391,276
Accounts receivable	-	1,891	-	-	1,891
Total current assets	185,141	1	959,288	248,737	1,393,167
Noncurrent assets					
Capital assets not being depreciated	156,472	-	-	-	156,472
Capital assets, net of depreciation	17,178	-	-	-	17,178
Total noncurrent assets	173,650	-	-	-	173,650
Total assets	358,791	1	959,288	248,737	1,566,817
Liabilities					
Current liabilities					
Accounts payable	1,769	-	-	-	1,769
Accrued expenses	2,421	-	-	-	2,421
Total current liabilities	4,190	-	-	-	4,190
Noncurrent liabilities					
Compensated absences	10,868	-	-	-	10,868
Total liabilities	15,058	-	-	-	15,058
Net assets					
Investment in capital assets	173,650	-	-	-	173,650
Unrestricted	170,083	1	959,288	248,737	1,378,109
Total net assets	\$ 343,733	\$ 1	\$ 959,288	\$ 248,737	\$ 1,551,759

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

	Parking	Transportation Garage Operations	Sewer Plant Equipment Replacement	Water Equipment Replacement	Total Nonmajor Enterprise Funds
Operating revenues					
Charges for services	\$ 150,856	\$ -	\$ -	\$ -	\$ 150,856
Operating expenses					
Parking lot expenses	183,979	-	-	-	183,979
Depreciation	2,664	-	-	-	2,664
Total operating expenses	186,643	-	-	-	186,643
Operating loss	(35,787)	-	-	-	(35,787)
Nonoperating revenues					
Interest revenue	5,558	-	6,696	1,661	13,915
Income (loss) before transfers	(30,229)	-	6,696	1,661	(21,872)
Transfers					
Transfers in	2,244	-	119,338	56,631	178,213
Transfers out	(10,000)	-	(8,000)	(8,200)	(26,200)
Total transfers	(7,756)	-	111,338	48,431	152,013
Change in net assets	(37,985)	-	118,034	50,092	130,141
Net assets, beginning of year, as previously reported	385,835	1	841,254	198,645	1,425,735
Prior period adjustment	(4,117)	-	-	-	(4,117)
Net assets, beginning of year, as restated	381,718	1	841,254	198,645	1,421,618
Net assets, end of year	\$ 343,733	\$ 1	\$ 959,288	\$ 248,737	\$ 1,551,759

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Parking</u>	<u>Transportation Garage Operations</u>	<u>Sewer Plant Equipment Replacement</u>	<u>Water Equipment Replacement</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash flows from operating activities					
Cash collected from customers	\$ 150,856	\$ -	\$ -	\$ -	\$ 150,856
Cash paid for employee wages and benefits	(110,584)	-	-	-	(110,584)
Cash paid for other operating and administrative expenses	(75,640)	(1,057)	-	-	(76,697)
Net cash (used in) operating activities	(35,368)	(1,057)	-	-	(36,425)
Cash flows from capital and related financing activities					
Transfers in	2,244	-	119,338	56,631	178,213
Transfers out	(10,000)	-	(8,000)	(8,200)	(26,200)
Net cash (used in) provided by noncapital financing activities	(7,756)	-	111,338	48,431	152,013
Cash flows from capital and related financing activities					
Purchase of property, plant and equipment	(8,643)	-	-	-	(8,643)
Change in accrued compensated absences	2,929	-	-	-	2,929
Net cash (used in) capital and related financing activities	(5,714)	-	-	-	(5,714)
Cash flows from investing activities					
Sale of investments	73,515	-	-	-	73,515
Interest revenue	5,558	-	6,696	1,661	13,915
Net cash provided by investing activities	79,073	-	6,696	1,661	87,430
Net increase (decrease) in cash and cash equivalents	30,235	(1,057)	118,034	50,092	197,304
Cash and cash equivalents, beginning of year	154,906	(833)	841,254	198,645	1,193,972
Cash and cash equivalents, end of year	\$ 185,141	\$ (1,890)	\$ 959,288	\$ 248,737	\$ 1,391,276

Continued...

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Parking</u>	<u>Transportation Garage Operations</u>	<u>Sewer Plant Equipment Replacement</u>	<u>Water Equipment Replacement</u>	<u>Total Nonmajor Enterprise Funds</u>
Cash flows from operating activities					
Operating loss	\$ (35,787)	\$ -	\$ -	\$ -	\$ (35,787)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities					
Depreciation	2,664	-	-	-	2,664
Changes in operating assets and liabilities which provided (used) cash					
Accounts receivable	-	(1,057)	-	-	(1,057)
Accounts payable	(4,666)	-	-	-	(4,666)
Accrued expenses	2,421	-	-	-	2,421
Net cash (used in) operating activities	<u>\$ (35,368)</u>	<u>\$ (1,057)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (36,425)</u>

Concluded

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2007

	Data Processing	Stock and Equipment	Total Internal Service Funds
Assets			
Current assets			
Cash and cash equivalents	\$ 276,340	\$ 1,147,588	\$ 1,423,928
Accounts receivable	-	18,888	18,888
Inventories	-	131,628	131,628
Total current assets	276,340	1,298,104	1,574,444
Noncurrent assets			
Capital assets not being depreciated	120,290	-	120,290
Capital assets being depreciated, net	306,706	981,225	1,287,931
Total noncurrent assets	426,996	981,225	1,408,221
Total assets	703,336	2,279,329	2,982,665
Liabilities			
Current liabilities			
Accounts payable	17,223	38,279	55,502
Accrued expenses	5,797	30,338	36,135
Total current liabilities	23,020	68,617	91,637
Noncurrent liabilities			
Compensated absences	-	25,141	25,141
Total liabilities	23,020	93,758	116,778
Net assets			
Invested in capital assets	426,996	981,225	1,408,221
Unrestricted	253,320	1,204,346	1,457,666
Total net assets	\$ 680,316	\$ 2,185,571	\$ 2,865,887

CITY OF SAULT STE. MARIE

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	Data Processing	Stock and Equipment	Total Internal Service Funds
Operating revenues			
Charges for services	\$ 435,250	\$ 875,168	\$ 1,310,418
Operating expenses			
Operation of equipment	116,082	909,018	1,025,100
Depreciation	37,007	222,517	259,524
Total operating expenses	153,089	1,131,535	1,284,624
Operating income (loss)	282,161	(256,367)	25,794
Nonoperating revenues			
Interest	-	49,776	49,776
Miscellaneous	-	179,108	179,108
Total nonoperating revenues	-	228,884	228,884
Income (loss) before transfers	282,161	(27,483)	254,678
Transfers			
Transfers in	-	59,458	59,458
Transfers out	-	-	-
Total transfers	-	59,458	59,458
Change in net assets	282,161	31,975	314,136
Net assets, beginning of year, as previously reported	398,155	2,165,393	2,563,548
Prior period adjustment	-	(11,797)	(11,797)
Net assets, beginning of year, as restated	398,155	2,153,596	2,551,751
Net assets, end of year	\$ 680,316	\$ 2,185,571	\$ 2,865,887

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Processing	Stock and Equipment	Total Internal Service Funds
Cash flows from operating activities			
Cash collected from other funds	\$ 435,250	\$ 860,957	\$ 1,296,207
Cash paid for employee wages and benefits	(85,455)	(404,989)	(490,444)
Cash paid for other operating and administrative expenses	(9,894)	(506,252)	(516,146)
Net cash provided by (used in) operating activities	339,901	(50,284)	289,617
Cash flows from noncapital financing activities			
Transfers in	-	59,458	59,458
Transfers out	-	-	-
Miscellaneous revenue	-	179,108	179,108
Change in accrued compensated absences	-	2,798	2,798
Net cash provided by noncapital financing activities	-	241,364	241,364
Cash flows from capital and related financing activities			
Purchase of property, plant and equipment	(211,700)	(322,620)	(534,320)
Cash flows from investing activities			
Sale of investments	47,677	395,652	443,329
Interest revenue	-	49,776	49,776
Net cash provided by investing activities	47,677	445,428	493,105
Net increase in cash and cash equivalents	175,878	313,888	489,766
Cash and cash equivalents, beginning of year	100,462	833,700	934,162
Cash and cash equivalents, end of year	\$ 276,340	\$ 1,147,588	\$ 1,423,928

Continued...

CITY OF SAULT STE. MARIE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Data Processing</u>	<u>Stock and Equipment</u>	<u>Total Internal Service Funds</u>
Cash flows from operating activities			
Operating income (loss)	\$ 282,161	\$ (256,367)	\$ 25,794
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	37,007	222,517	259,524
Changes in operating assets and liabilities which provided (used) cash			
Accounts receivable	-	(14,211)	(14,211)
Inventories	-	(25,007)	(25,007)
Accounts payable	14,936	(7,554)	7,382
Accrued expenses	5,797	30,338	36,135
Net cash provided by (used in) operating activities	<u><u>\$ 339,901</u></u>	<u><u>\$ (50,284)</u></u>	<u><u>\$ 289,617</u></u>
			Concluded

CITY OF SAULT STE. MARIE
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Assets				
Cash and cash equivalents, unrestricted	\$ 108,630	\$ 3,043,075	\$ 2,972,629	\$ 179,076
Restricted investments	539,993	298,263	4,567	833,689
Total assets	<u>\$ 648,623</u>	<u>\$ 3,341,338</u>	<u>\$ 2,977,196</u>	<u>\$ 1,012,765</u>
Liabilities				
Accrued liabilities	\$ 543,027	\$ 667,830	\$ 296,978	\$ 913,879
Due to other governmental units	105,596	12,790,944	12,797,654	98,886
Total liabilities	<u>\$ 648,623</u>	<u>\$ 13,458,774</u>	<u>\$ 13,094,632</u>	<u>\$ 1,012,765</u>

CITY OF SAULT STE. MARIE
COMBINING BALANCE SHEET
GOVERNMENTAL COMPONENT UNITS
JUNE 30, 2007

	Downtown Development Authority	Economic Development Corporation	TIFA	Library
ASSETS				
Cash and cash equivalents	\$ 1,392,024	\$ 128,173	\$ 204,310	\$ 361,027
Investments	-	100,000	-	251,362
Accounts receivable	-	4,425	-	33,452
Advance to primary government	-	220,000	-	-
Special assessment receivable	39,126	-	-	-
Prepaid expenditures	-	-	-	5,017
Restricted investments	-	-	-	166,549
Total assets	\$ 1,431,150	\$ 452,598	\$ 204,310	\$ 817,407
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 8,104	\$ -	\$ -	\$ 49,488
Accrued expenses	3,448	11,207	-	-
Deferred revenue	39,126	11,649	-	-
Total liabilities	50,678	22,856	-	49,488
Fund balances				
Restricted	-	-	-	166,549
Unreserved - undesignated	1,380,472	429,742	204,310	601,370
Total fund balances	1,380,472	429,742	204,310	767,919
Total liabilities and fund balances	\$ 1,431,150	\$ 452,598	\$ 204,310	\$ 817,407
Reconciliation of fund balances on the balance sheet for component units to the statement of net assets				
Fund balances - component units	\$ 1,380,472	\$ 429,742	\$ 204,310	\$ 767,919
Amounts reported for component units in the statement of net assets are different because				
Certain assets, such as special assessments receivable, are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.				
Add - special assessments receivable	39,126	-	-	-
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Add - capital assets (net)	-	26,615	-	277,227
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.				
Deduct - compensated absences payable	-	(6,813)	-	(20,860)
Net assets of component units	\$ 1,419,598	\$ 449,544	\$ 204,310	\$ 1,024,286

CITY OF SAULT STE. MARIE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL COMPONENT UNITS**

FOR THE YEAR ENDED JUNE 30, 2007

	Downtown Development Authority	Economic Development Corporation	TIFA	Library
Revenues				
Local sources	\$ -	\$ -	\$ -	\$ 206,069
Taxes	528,831	-	313,177	-
Special assessments	11,453	-	-	-
Charges for services	-	-	-	75,567
Interest	53,258	14,210	1,509	27,660
Miscellaneous	102,923	142,612	-	395,507
Total revenues	696,465	156,822	314,686	704,803
Expenditures				
General government	-	189,675	-	-
Culture and recreation	-	-	-	647,285
Other expenditures	793,858	-	202,678	-
Total expenditures	793,858	189,675	202,678	647,285
Net change in fund balances	(97,393)	(32,853)	112,008	57,518
Fund balances, beginning of year	1,477,865	462,595	92,302	710,401
Fund balances, end of year	\$ 1,380,472	\$ 429,742	\$ 204,310	\$ 767,919
Reconciliation of the statement of revenues, expenditures and change in fund balance of component units to the statement of activities				
Net change in fund balances - component units	\$ (97,393)	\$ (32,853)	\$ 112,008	\$ 57,518
Amounts reported for component units in the statement of activities are different because				
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Add - capital outlay	-	-	-	57,069
Deduct - loss on capital asset disposal	-	-	-	(551)
Deduct - depreciation expense	-	(4,843)	-	(43,515)
Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.				
Deduct - special assessment receipts	(11,455)	-	-	-
Add - current year special assessments	28,798	-	-	-
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.				
Deduct/add - increase/decrease in compensated absences	-	(300)	-	(680)
Change in net assets of component units	\$ (80,050)	\$ (37,996)	\$ 112,008	\$ 69,841



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

December 28, 2007

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Sault Ste. Marie* (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency over financial reporting. This deficiency is referenced as 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider significant deficiency 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated December 28, 2007. The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the finance committee, management, others within the organization, the City Commission, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.

SINGLE AUDIT

CITY OF SAULT STE. MARIE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Program or Award Grant Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass through Michigan Department of Community Health			
Community Development Block Grant (CDBG)	14.228	MSC 205079-EDIG	\$ 72,900
U.S. DEPARTMENT OF JUSTICE			
Pass through Michigan Department of Community Health			
S.A.N.E. 10/1/05 to 9/30/06	16.579	70868-7-06-B	33,577
S.A.N.E. 10/1/06 to 9/30/07	16.738	2006 DJ BX 0029	12,395
Total U.S. Department of Justice			45,972
U.S. DEPARTMENT OF TRANSPORTATION			
Pass through Michigan Department of Transportation			
Section 5311 Operating Assistance	20.509	2007-0287 Z2	41,518
Section 5311 Operating Assistance	20.509	2002-0084 Z10/R10	24,573
Section 5309 Capital grant	20.507	2002-0084 Z3/R2	5,141
Highway Research Planning & Construction	20.205	05-5493	357,324
Highway Research Planning & Construction	20.205	06-5157	84,358
Pass through Michigan State Police			
Alcohol Traffic Safety and Drunk Driving Incentive Grant	20.601	2006-AL-06-11	11,526
Alcohol Traffic Safety and Drunk Driving Incentive Grant	20.601	AL-07-34	4,961
Total U.S. Department of Transportation			529,401
U.S. DEPARTMENT OF HOMELAND SECURITY			
Direct Programs			
Commercial Equipment Direct Assistance Program (CEDAP)	97.096	97.096	15,860
Total Expenditures of Federal Awards			\$ 664,133

CITY OF SAULT STE. MARIE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. RECONCILIATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following is a reconciliation of the expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA) to the Federal Revenues as reported in the financial statements:

	<u>Amount</u>
Expenditures of Federal Awards - SEFA	\$ 664,133
MDOT administered FHWA grants	<u>413,775</u>
Total federal awards	<u>\$1,077,908</u>



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

December 28, 2007

Honorable Mayor and Members
of the City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

Compliance

We have audited the compliance of the *City of Sault Ste. Marie* (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to its federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, others within the organization, the City Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.

CITY OF SAULT STE. MARIE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major programs:	

CFDA #

Name of Program

20.205

Highway Planning and Construction

Dollar threshold to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low risk auditee?	Yes

Continued....

CITY OF SAULT STE. MARIE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due to the size of the City and the number of employees involved in the financial reporting process, the hiring of accounting personnel capable of writing the financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is a risk that the City has acknowledged and is willing to accept.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings and questioned costs.

SECTION IV – PRIOR AUDIT FINDINGS

None noted.

Concluded

**ADDITIONAL INFORMATION
(UNAUDITED)**

Continuing Disclosure Filing

City of Sault Ste. Marie
County of Chippewa, State of Michigan

Fiscal Year Ended
June 30, 2007

MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission Rule 15c2-12.

Issuer's and/or Other Obligated Person's Name: City of Sault Ste. Marie, Michigan

CUSIP Numbers (attach additional sheet if necessary):

- ☐ Nine-digit number(s) to which the information relates:
☒ Information relates to **all securities** issued by the issuer having the following six-digit number(s): 169682, 804413

* * *

Number of pages of attached information:

Description of Material Event Notice / Financial Information (Check One):

1. _____ Principal and interest payment delinquencies
2. _____ Non-Payment related defaults
3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
5. _____ Substitution of credit or liquidity providers, or their failure to perform
6. _____ Adverse tax opinions or events affecting the tax-exempt status of the security
7. _____ Modifications to rights of securities holders
8. _____ Bond calls
9. _____ Defeasances
10. _____ Release, substitution, or sale of property securing repayment of the securities
11. _____ Rating changes
12. _____ Failure to provide annual financial information as required for the fiscal years ended June 30, 1998, 1999 and 2000
13. _____ Other material event notice (specify)
14. X Financial information*: Please check all appropriate boxes:

☐ CAFR: (a) ☐ includes ☐ does not include Annual Financial Information

(b) Audited? Yes ☐ No ☐

☒ Annual Financial Information: Audited? Yes ☒ No ☐

☒ Operating Data

Fiscal Period Covered: Fiscal Year Ended June 30, 2007

*Financial information **should not** be filed with the MSRB

* * *

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: _____

Name: John Boger Title: Finance Director

Employer: City of Sault Ste. Marie, Michigan

Address: 325 Court Street

City, State, Zip Code: Sault Ste. Marie, Michigan 49783

Voice Telephone Number: (906) 632-5726

LIST OF CURRENT
NATIONALLY RECOGNIZED MUNICIPAL SECURITIES
INFORMATION REPOSITORIES (NRMSIRs)

Standard & Poor's Securities Evaluations, Inc.
55 Water Street – 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market)
Fax: (212) 771-7391 (Primary Market)
E-mail: Nrmsir@interactivedata.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-07012
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

STATE INFORMATION REPOSITORY

Municipal Advisory Council of Michigan
1445 First National Building
Detroit, Michigan 48226-3517
Phone: 313-963-0420
Fax: 313-963-0943
E-mail: mac@macmi.com; bev@macmi.com

Population

1960 U.S. Census.....	18,722
1970 U.S. Census.....	15,136
1980 U.S. Census.....	14,448
1990 U.S. Census.....	14,689
2000 U.S. Census.....	14,483

Source: U.S. Department of Commerce - Bureau of Census

City of Sault Ste. Marie Taxable Value Fiscal Years Ended or Ending June 30, 2004 Through 2008

Assessed Value as of <u>December 31</u>	Year of State Equalization And Tax Levy	City's Fiscal Year Ended or Ending <u>June 30</u>	Ad Valorem Taxable <u>Value</u>	Equivalent Taxable Value of Property Granted Tax Abatement <u>Under Act 198 (1)</u>	Total Taxable <u>Value</u>	Percent Increase Over Prior <u>Year</u>
2002	2003	2004	\$235,109,881	\$3,382,500	\$238,492,381	1.81%
2003	2004	2005	242,512,276	3,288,300	245,800,576	3.06
2004	2005	2006	254,452,705	3,091,700	257,544,405	4.78
2005	2006	2007	268,788,438	8,683,400	271,482,269	5.41
2006	2007	2008	276,948,746	4,264,000	281,223,177	3.58

DNR 10.431(3)

Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2007 (2)..... \$18,744.90

(1) At the full tax rate.

(2) Based on the City's 2000 Census population of 14,483.

Source: City of Sault Ste. Marie

(3) Frozen value @ 2004 tax rate.

City of Sault Ste. Marie Total Taxable Value by Use and Class Fiscal Years Ended or Ending June 30, 2004 Through 2008

	Fiscal Year Ended or Ending June 30				
<u>Use</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Commercial	\$ 90,021,978	\$ 91,676,649	\$ 96,074,536	\$ 102,785,440	\$ 104,202,036
Industrial.....	18,394,769	18,158,882	17,836,806	17,245,419	19,386,820
Residential/Agr.....	125,721,334	131,228,445	136,868,963	143,696,610	150,339,021
Utility	<u>4,354,530</u>	<u>4,736,600</u>	<u>6,764,100</u>	<u>7,754,800</u>	<u>7,295,300</u>
Total.....	<u>\$ 238,492,381</u>	<u>\$ 245,800,576</u>	<u>\$ 257,544,405</u>	<u>\$ 271,482,269</u>	<u>\$ 281,223,177</u>
<u>Class</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Real Property	\$ 217,157,681	\$ 224,212,826	\$ 233,497,305	\$ 246,358,169	\$ 255,904,277
Personal Property.....	<u>21,334,700</u>	<u>21,587,750</u>	<u>24,047,100</u>	<u>25,124,100</u>	<u>25,318,900</u>
Total.....	<u>\$ 238,492,381</u>	<u>\$ 245,800,576</u>	<u>\$ 257,544,405</u>	<u>\$ 271,482,269</u>	<u>\$ 281,223,177</u>

Source: City of Sault Ste. Marie

-
-
-
-
-

City of Sault Ste. Marie
Percent of Total Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2003 Through 2008

<u>Use</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Commercial	38.47%	37.75%	37.30%	37.30%	37.86%	37.05
Industrial.....	7.36	7.71	7.39	6.93	6.35	6.89
Residential/Agr.	51.59	52.71	53.39	53.14	52.93	53.46
Utility.....	<u>2.58</u>	<u>1.83</u>	<u>1.92</u>	<u>2.63</u>	<u>2.86</u>	<u>2.60</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

<u>Class</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Real Property	90.21%	91.05%	91.22%	90.66%	90.75%	91.00
Personal Property	<u>9.79</u>	<u>8.95</u>	<u>8.78</u>	<u>9.34</u>	<u>9.25</u>	<u>9.00</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2004 Through 2008

<u>Assessed</u> <u>Value as of</u> <u>December 31</u>	<u>Year of State</u> <u>Equalization</u> <u>and Tax Levy</u>	<u>City's Fiscal</u> <u>Year Ended</u> <u>or Ending</u> <u>June 30</u>	<u>Ad</u> <u>Valorem</u> <u>SEV</u>	<u>SEV of Property</u> <u>Granted Tax</u> <u>Abatement</u> <u>Under</u> <u>Act 198</u>	<u>Total</u> <u>SEV</u>	<u>Percent</u> <u>Increase</u> <u>Over Prior</u> <u>Year</u>
2002	2003	2004	\$264,172,120	\$6,765,000	\$270,937,120	1.72%
2003	2004	2005	271,003,200	6,576,600	277,579,800	2.45
2004	2005	2006	286,837,500	6,183,400	293,020,900	5.56
2005	2006	2007	303,422,900	5,366,800	308,893,100	5.42
2006	2007	2008	309,151,100	4,264,000	313,518,500	1.50
				DNR 103,400		

Per Capita Total SEV for the Fiscal Year Ending June 30, 2006 (1) \$21,327.98

(1) Based on the City's 2000 Census population of 14,483.

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2004 Through 2008

	Fiscal Year Ended or Ending June 30				
<u>Use</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Commercial	\$ 98,794,300	\$ 99,209,600	\$ 103,532,100	\$ 110,330,300	\$ 110,207,500
Industrial	21,808,420	21,471,000	20,948,500	19,943,200	19,395,400
Residential/Agr.....	145,980,100	152,162,600	161,776,200	170,864,800	176,620,300
Utility	<u>4,354,300</u>	<u>4,736,600</u>	<u>6,764,100</u>	<u>7,754,800</u>	<u>7,295,300</u>
	<u>\$ 270,937,120</u>	<u>\$ 277,579,800</u>	<u>\$ 293,020,900</u>	<u>\$ 308,893,100</u>	<u>\$ 313,518,500</u>

<u>Class</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Real Property	\$ 247,887,520	\$ 254,444,600	\$ 267,626,000	\$ 282,829,500	\$ 288,199,600
Personal Property	<u>23,049,600</u>	<u>23,135,200</u>	<u>25,394,900</u>	<u>26,063,600</u>	<u>25,318,900</u>
	<u>\$ 270,937,120</u>	<u>\$ 277,579,800</u>	<u>\$ 293,020,900</u>	<u>\$ 308,893,100</u>	<u>\$ 313,518,500</u>

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Percent of Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2004 Through 2008

	Fiscal Year Ended or Ending June 30				
<u>Use</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Commercial	36.46%	35.74%	35.33%	35.72%	35.15%
Industrial	8.05	7.74	7.15	6.45	6.19
Residential.....	53.88	54.82	55.21	55.32	56.33
Utility	<u>1.61</u>	<u>1.70</u>	<u>2.31</u>	<u>2.51</u>	<u>2.33</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

<u>Class</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Real Property	91.49%	91.67%	91.33%	91.56%	91.92%
Personal Property	<u>8.51</u>	<u>8.33</u>	<u>8.67</u>	<u>8.44</u>	<u>8.08</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Maximum Tax Rates
Fiscal Year Ending June 30, 2008

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Millage Reduction Fraction (1)</u>	<u>Maximum Allowable Millage</u>
Operating	20.0000	0.840695	16.8139
Refuse Collection and Disposal.....	3.0000	0.840695	2.5211
Library	1.0000	0.840695	0.8407

(1) Cumulative

Source: City of Sault Ste. Marie

Tax Abatement

The City's Taxable Value does not include the value of certain facilities which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198 or Act 255 (the "Acts"). The Acts were designed to provide a stimulus in the form of significant tax incentives to industry and commercial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Acts, a local governmental unit (i.e., a city, village, or township) may establish plant rehabilitation districts, industrial development districts, and commercial redevelopment districts and offer industrial and commercial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

An industrial or commercial facilities exemption certificate granted under either of the Acts entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay an industrial facilities or commercial facilities tax (the "IFT Tax" and "CFT Tax", respectively). For properties granted tax abatement under Act 198 or Act 255 there exists separate tax rolls referred to as the industrial facilities tax roll (the "IFT Tax Roll") and the commercial facilities tax roll (the "CFT Tax Roll"), respectively. The IFT or CFT Tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the Taxable Value level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility the IFT or CFT Tax is also determined the same as the Ad Valorem Tax but instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals $\frac{1}{2}$ of all tax rates levied by other than the state and local school district for operating purposes plus $\frac{1}{2}$ of the 1993 rate levied by the local school district for operating purposes. For abatements granted after 1994, this millage rate equals $\frac{1}{2}$ of all tax rates levied by other than the State plus none, $\frac{1}{2}$ or all of the state tax rate (as determined by the State Treasurer). Act 255 expired as an effective statute of the State of Michigan on December 31, 1986. Tax abatements granted to commercial facilities under Act 255 prior to December 31, 1986 have expired.

The City has established goals, objectives and procedures to provide the opportunity for industrial and commercial development and expansion. Since 1974, the City has approved a number of applications for local property tax relief for industrial firms. Most abatements have been for new industrial facilities. The SEV of properties which have been granted tax abatement under Act 198, removed from the Ad Valorem Tax Roll totaled \$4,264,000 for the fiscal year ending June 30, 2008. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$2,132,000 of Taxable Value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial facilities exemption certificates the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as Taxable Value.

City of Sault Ste. Marie
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2004 Through 2008

Levy	Fiscal Years Ended or	-	Police and	Refuse	-	
<u>July 1</u>	<u>Ending June 30</u>	<u>Operating</u>	<u>Fire Pension</u>	<u>Collection</u>	<u>Library</u>	<u>Total</u>
				<u>and Disposal</u>		
2003	2004	\$16.8139	\$2.7461	\$0.4200	\$0.8000	\$20.7800
2004	2005	16.8139	3.0211	0.4200	0.8000	21.0550
2005	2006	16.8139	3.1484	0.4200	0.8000	21.1823
2006	2007	16.8139	3.2476	0.3208	0.8000	21.1823
2007	2008	16.8139	3.1352	0.4332	0.8000	21.1823

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended June 30, 2003 Through 2007

	Fiscal Year Ended June 30				
<u>Governmental Unit</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
City of Sault Ste. Marie	\$20.6039	\$20.7800	\$20.1823	\$21.1823	\$21.1823
Chippewa County	8.5720	8.5962	8.5273	8.4526	8.4214
State Education Levy	6.0000	5.0000	6.0000	6.0000	6.0000
Sault Ste. Marie Public Schools...	2.7500	2.6200	2.4600	2.4600	2.1100
Intermediate School District	<u>0.9953</u>	<u>0.9952</u>	<u>0.9898</u>	<u>0.9786</u>	<u>0.9702</u>
Total.....	<u>\$38.9200</u>	<u>\$37.9914</u>	<u>\$39.1594</u>	<u>\$39.0735</u>	<u>\$38.6839</u>

City of Sault Ste. Marie
Non-Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended June 30, 2003 Through 2007

	Fiscal Year Ended June 30				
<u>Governmental Unit</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
City of Sault Ste. Marie	\$20.6039	\$20.7800	\$21.1823	\$21.1823	\$21.1823
Chippewa County	8.5708	8.5962	8.5273	8.4526	8.4214
State Education Levy	6.0000	5.0000	6.0000	6.0000	6.0000
Sault Ste. Marie Public Schools..	20.7500	20.5804	20.4204	20.4204	20.0704
Intermediate School District	<u>0.9953</u>	<u>0.9952</u>	<u>0.9898</u>	<u>0.9736</u>	<u>0.9702</u>
Total.....	<u>\$56.9300</u>	<u>\$55.9518</u>	<u>\$57.1198</u>	<u>\$57.0339</u>	<u>\$56.6443</u>

- (1) *Principal Residence* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Principal Residence includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the Principal Residence includes only 5 acres adjacent and contiguous to the home of the owner. Principal Residence includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Principal Residence also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-Principal Residence* is property not included in the above definition.

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Property Tax Collections
Fiscal Years Ended or Ending June 30, 2003 Through 2008

July 1 <u>Levy</u>	Fiscal Year Ended or Ending <u>June 30</u>	<u>Tax Levy (1)</u>	Collections to March 1 <u>Following Levy</u>	Percent <u>Collected</u>
2002	2003	4,528,778	4,188,603	92.49
2003	2004	4,654,115	4,348,754	93.44
2004	2005	4,885,476	4,604,561	94.25
2005	2006	5,164,303	4,876,199	94.43
2006	2007	5,488,664	5,162,643	94.06
2007	2008	5,574,174	(In Process of Collection)	

(1) Includes all millages levied by the City. Includes certain taxes on properties granted tax abatement under Act 198.

Source: City of Sault Ste. Marie

(1) *Homestead* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-homestead* is property not included in the above definition.

Source: City of Sault Ste. Marie

Profile of the Ten Largest Taxpayers

Reflected below are the City's ten largest property taxpayers, their principal product or service and respective Total Taxable Value for the fiscal year ending June 30, 2006.

City of Sault Ste. Marie
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2007

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value</u>	Percent of <u>Total (1)</u>
Edison Sault Electric Company	Electric Company	\$ 15457,700	5.49%
DDR Michigan II LLC	Cascade Crossing Shopping Mall	7,555,700	2.68
Pointe West 1 LP	Development	7,179,105	2.55
Precision Edge Surgical Products	Medical Products	2,718,600	.96
Key Plastics LLC	Plastics	2,778,300	.98
Sault Ste Marie Tribe of Chippewa Indians ...	Various	2,097,961	.74
Ojibway Hotel – Great Lakes LLC	Hotel	1,568,100	.55
Michigan Consolidated Gas Co	Gas	1,564,400	.55
Sault Express Limited.	Hotel	1,510,500	.53
McGahey, Randall & Judith	Apartment Buildings	1,412,087	.50
		<u>\$ 43,842,453</u>	<u>15.53%</u>

- (1) Based on \$271,482,269 which the City's Total Taxable Value for its fiscal year ending June 30, 2007. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Property Valuations" and "Tax Abatement" herein.

Source: City of Sault Ste. Marie

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of December 2, 2007.

Debt Limit (1)		\$30,889,310
Debt Outstanding	\$39,581,368	
Less: Exempt Debt (2)	<u>30,375,607</u>	<u>9,205,761</u>
Legal Debt Margin.....		<u>\$21,683,541</u>

- (1) 10% of \$308,893,100, which is the City's Total SEV for the fiscal year ending June 30, 2007. Includes the SEV of property granted tax abatement under Act 198. See "Property Valuations" and "Tax Abatement" herein.
 (2) See "Statutory and Constitutional Debt Provisions" herein.

Source: Municipal Advisory Council of Michigan and the City of Sault Ste. Marie

Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of June 30, 2007 including the Bonds described herein. Direct debt that is shown as self-supporting is paid from sources other than the City's General Fund.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds that are designated as Unlimited Tax ("UT"). However, the City's ability to levy tax to pay the debt service on the bonds that are designated as Limited Tax ("LT") is subject to applicable charter, statutory and constitutional limitations. See "CITY TAXATION AND LIMITATION" herein.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
Share of County Issued Bonds:			
Dated December 11, 2001 (LT)	\$ 2,345,000	\$ 2,345,000	\$ -0-
Dated November 4, 1998 (LT)	2,260,000	2,260,000	-0-
Dated November 29, 1995 (LT)	<u>2,030,000</u>	<u>2,030,000</u>	<u>-0-</u>
Subtotal	<u>\$ 6,635,000</u>	<u>\$ 6,635,000</u>	<u>\$ -0-</u>
Building Authority Bonds:			
Dated June 1, 1997 (LT)	\$ 505,000	\$ -0-	\$ 505,000
Dated March 1, 1994 (LT)	<u>296,906</u>	<u>296,906</u>	<u>-0-</u>
Subtotal	<u>\$ 801,906</u>	<u>\$ 296,906</u>	<u>\$ 505,000</u>
Michigan Transportation Fund Bonds:			
Dated November 1, 2000 (LT)	\$ 720,000	\$ 720,000	\$ -0-
Dated June 1, 1997 (LT)	<u>425,000</u>	<u>425,000</u>	<u>-0-</u>
Subtotal	<u>1,145,000</u>	<u>1,145,000</u>	<u>\$ -0-</u>
Tax Increment Bonds:			
Dated April 27, 2005 (LT)			
Subtotal	<u>\$ 5,920,000</u>	<u>\$ 5,920,000</u>	<u>\$ -0-</u>
	<u>5,920,000</u>	<u>5,920,000</u>	<u>\$ -0-</u>
CDGB Loan			
Dated July 1, 2005	\$ 325,535	\$ 325,535	\$ -0-
Subtotal	<u>\$ 325,535</u>	<u>\$ 325,535</u>	<u>\$ -0-</u>

Capital Improvement Bonds:

Dated November 1 2005 (LT).....	\$ 765,000	\$ 765,000	\$ -0-
Dated March 8, 2005 (LT).....	1,450,000	1,218,000	232,000
Dated October 1, 2002 (LT)	<u>3,300,000</u>	<u>3,300,000</u>	<u>-0-</u>
Subtotal	<u>\$ 5,515,000</u>	<u>\$ 5,283,000</u>	<u>\$ 232,000</u>

Water and Sewer Bonds:

Dated March 27, 2003 (LT)	\$ 2,755,000	\$ 2,755,000	\$ -0-
Dated September 26, 2002 (LT)	2,975,000	2,975,000	-0-
Dated June 1, 2002 (UT)	2,635,000	2,635,000	-0-
Dated September 28, 2001 (LT)	1,500,607	1,500,607	-0-
Dated September 29, 1998 (LT)	2,675,000	2,675,000	-0-
Dated September 29, 1998 (LT)	2,930,000	2,930,000	-0-
Dated September 30, 1997 (LT)	405,000	405,000	-0-
Dated September 1, 1997 (LT)	540,000	540,000	-0-
Dated September 28, 1995 (LT)	<u>2,115,000</u>	<u>2,115,000</u>	<u>-0-</u>
Subtotal	<u>\$ 18,530,607</u>	<u>\$ 18,530,607</u>	<u>\$ -0-</u>

Installment Purchase Obligations:

Dated August 3, 2006	\$ 661,684	\$ 661,684	\$ -0-
Dated May 24, 2006 (LT)	41,302	-0-	41,302
Dated June 29, 2004 (LT)	<u>5,334</u>	<u>-0-</u>	<u>5,334</u>
Subtotal.....	<u>\$ 708,320</u>	<u>\$ 661,684</u>	<u>\$ 46,636</u>

Total	<u>\$ 39,581,368</u>	<u>\$ 38,797,732</u>	<u>\$ 783,636</u>
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Per Capita Net City Direct Debt (1).....	\$54.91
Percent of Net Direct Debt to Total SEV (2)	0.25%

	<u>Gross</u>	<u>City Share As Percent of Gross</u>	<u>Net</u>
<u>Overlapping Debt (4)</u>			
Sault Ste. Marie Public Schools	\$ 8,910,000	59.04%	\$ 5,260,464
Chippewa County	<u>5,829,000</u>	29.91	<u>1,743,454</u>
Totals.....	<u>\$ 14,739,000</u>		<u>\$ 7,003,918</u>

Per Capita Net Overlapping Debt (1).....	\$483.60
Percent of Net Overlapping Debt to Total SEV (2)	2.27%

Per Capita Net Direct and Overlapping Debt (1)	\$537.70
Percent of Net Direct and Overlapping Debt to Total SEV (3)	2.52%

(1) Based on the City's 2000 Census population of 14,483.

(2) Based on \$308,893,100 that is the City's Total SEV for the fiscal year ending June 30, 2007. Includes the SEV of property granted tax abatement under Act 198.

(3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of Sault Ste. Marie

City of Sault Ste. Marie
Revenues From the State of Michigan
Fiscal Years Ended or Ending June 30, 2001 Through 2007

	Fiscal Year Ended or Ending June 30						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007(1)</u>
Sales Tax	\$2,121,000	\$2,068,810	\$1,968,064	\$1,771,162	\$1,747,466	\$1,730,057	\$1,682,999
Income Tax.....	0	0	0	0	0	0	0
Liquor Licenses	<u>17,435</u>	<u>16,525</u>	<u>6,405</u>	<u>16,487</u>	<u>17,735</u>	<u>18,167</u>	<u>18,850</u>
Total Revenues.....	<u>\$2,138,435</u>	<u>\$2,085,335</u>	<u>\$1,984,469</u>	<u>\$1,787,649</u>	<u>\$1,765,201</u>	<u>\$1,748,224</u>	<u>\$1,701,849</u>

(1) As projected.

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
General Pension System
Five-Year History

Valuation Date	Actuarial	Actuarial	Funded
<u>December 31</u>	<u>Accrued</u>	<u>Value of</u>	<u>Ratio</u>
	<u>Liability</u>	<u>Assets</u>	
2002	\$17,447,662	\$17,503,766	110.32%
2003	18,105,810	18,223,939	110.67
2004	19,779,167	18,890,155	95.51
2005	19,949,324	19,428,237	97.39
2006	20,110,296	19,430,327	96.61

Source: City of Sault Ste. Marie

City of Sault Ste. Marie
Police and Fire Pension System
Five-Year History

Valuation Date	Actuarial	Actuarial	Funded
<u>June 30</u>	<u>Accrued</u>	<u>Value of</u>	<u>Ratio</u>
	<u>Liability</u>	<u>Assets</u>	
2002	\$17,439,131	\$12,198,649	69.96%
2003	19,043,534 (1)	11,819,254	62.06
2004	19,529,555	11,600,524	59.40
2005	20,238,595	11,590,091	57.27
2006	20,321,773	11,715,957	57.61

(1) After changes in actuarial assumptions.

Source: City of Sault Ste. Marie

LABOR CONTRACTS

Approximately 78.40% of the City's permanent employees are represented by labor organizations. The following table illustrates the various labor organizations that represent City employees, the number of members in each and expiration date of the present contract.

	<u>Membership</u>	Current <u>Expiration Date</u>
United Steelworkers of America-Public Works	46	June 30, 2008
United Steelworkers of America-Clerical	9	June 30, 2006*
United Steelworkers of America-Firefighters	15	June 30, 2008
United Steelworkers of America-Fire Captains.....	3	June 30, 2008
Michigan Fraternal Order of Police Labor Council-Patrol Unit.....	18	June 30, 2008
Michigan Fraternal Order of Police Labor Council-Police Records	4	June 30, 2009
Michigan Fraternal Order of Police Labor Council-Police Sergeant.....	5	June 30, 2008
Non-Union Employees	28	n/a
Total Permanent City Employees	<u>128</u>	

*In process of negotiation.

Source: City of Sault Ste. Marie

Profile of Major Employers

The table located below reflects the diversity of the ten largest employers in the City by the estimated number of employees and the products manufactured or services provided.

<u>Company</u>	<u>Principal Product or Service</u>	Approximate Number <u>of Employees</u>
Kewadin Hotel and Convention Center.	Casino, hotel with convention center	1,452
War Memorial Hospital.....	Health Care.....	664
Sault Ste. Marie Public Schools	Education.....	310
Wal-Mart Stores, Inc.	Department Store.....	200
Lake Superior State University	Four-year college.....	320
City of Sault Ste. Marie	Local Government.....	125
Precision Edge Surgical Products, Inc...	Surgical Instruments.....	135
Tech Optics	Ink Cartridge Recycling	115
U. S. Army Corps of Engineers.....	Soo Locks.....	95
Kmart.....	Department Store.....	79

Source: City of Sault Ste. Marie

City of Sault Ste. Marie:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Employed.....	6,918	6,982	7,057	7,169	7,284	6,942
Unemployed.....	<u>658</u>	<u>742</u>	<u>755</u>	<u>716</u>	<u>723</u>	<u>839</u>
Labor Force.....	<u>7,576</u>	<u>7,724</u>	<u>7,811</u>	<u>7,885</u>	<u>8,007</u>	<u>7,781</u>
Unemployed as Percent of the Labor Force (1)	8.7%	9.6%	9.7%	9.1%	9.0%	10.8%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Career Development.

Source: Office of Labor Market Information – Michigan Department of Career Development County of Chippewa:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005(2)</u>	<u>2006</u>	<u>2007</u>
Employed.....	16,246	16,453	16,076	17,309	15,861	15,750
Unemployed.....	<u>1,297</u>	<u>1,430</u>	<u>1,588</u>	<u>941</u>	<u>1,721</u>	<u>1,725</u>
Labor Force.....	<u>17,543</u>	<u>17,883</u>	<u>17,664</u>	<u>18,250</u>	<u>17,583</u>	<u>17,475</u>
Unemployed as Percent of the Labor Force (1)	7.4%	8.0%	9.0%	5.2%	9.8%	9.9%

(2) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Labor and Economic Growth.

(3) As of April 2007.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth

State of Michigan:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005(2)</u>	<u>2006</u>	<u>2007</u>
Employed.....	4,691,000	4,674,000	4,719,343	4,832,169	4,766,100	4,643,600
Unemployed.....	<u>310,000</u>	<u>358,000</u>	<u>359,636</u>	<u>273,538</u>	<u>339,707</u>	<u>338,000</u>
Labor Force.....	<u>5,001,000</u>	<u>5,032,000</u>	<u>5,078,979</u>	<u>5,105,707</u>	<u>5,105,807</u>	<u>4,981,600</u>
Unemployed as Percent of Labor Force (1)	6.2%	7.3%	7.1%	5.4%	6.7%	6.8%

(1) Totals and percentages may differ due to rounding by the Office of Labor Market Information – Michigan Department of Labor and Economic Growth.

(2) As of April 2007.

Source: Office of Labor Market Information – Michigan Department of Labor and Economic Growth



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

December 28, 2007

City Commission
City of Sault Ste. Marie
Sault Ste. Marie, Michigan

In planning and performing our audit of the financial statements of **City of Sault Ste. Marie** (the “City”) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City’s financial statements that is more than inconsequential will not be prevented or detected by the City’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified a deficiency in internal control that we consider to be a material weakness. This deficiency has been documented in the *Schedule of Findings and Questioned Costs*. Certain other matters related to operational or administrative efficiencies and improvements to internal controls are included on the following pages.

This communication is intended solely for the information and use of the City Commission, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

This letter does not affect our report dated December 28, 2007 on the financial statements of the City.

CITY OF SAULT STE. MARIE
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2007

BANK ACCOUNT RECONCILIATIONS

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. Reconciliations of the bank statement balances to the general ledger balances should be prepared to determine that all cash transactions have been recorded properly in the month that they occurred and to discover bank errors. During the year the bank reconciliations appeared to be incomplete and contained significant unreconciled differences. An unreconciled difference that appears immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

We recommend that bank account reconciliations are prepared and the bank statement balance is reconciled to the general ledger balance each month. We also recommend that the reconciliations and all supporting documentation be reviewed for accuracy and completeness on a timely basis by the Finance Director and then initialed as evidence of his approval.

PHYSICAL INVENTORY

We noted that the historical cost was used to value several inventory items and management was unable to provide support for the unit cost of the items selected for testing. In order to determine if the inventory was appropriately valued, we obtained unit prices from recent catalogs and noted that there were variances between the cost used to value the inventory and the current values. Per discussions with management, we also noted that inventory has not been evaluated for obsolescence in several years. Failure to write off obsolete inventory or not properly value inventory could result in a misstatement of the amount recorded in the financial statements. We recommend that the City perform a physical count of the inventory at year end, evaluate the physical count and adjust the inventory for obsolete items, and properly value the final inventory using current prices so that an accurate value is presented in the financial statements.

MICHIGAN FINANCE QUALIFYING STATEMENT

All governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit their qualifying statement electronically using the Michigan Department of Treasury's website. The Qualifying Statement is due to the Michigan Department of Treasury no later than December 31, 2007.

ELECTRONICALLY FILING THE FINANCIAL STATEMENTS

The Michigan Department of Treasury (the “Treasury”) has issued Numbered Letter 2004-5 which requests (under the authority of Michigan Compiled Law 141.427(1)) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (PDF) compatible with Adobe Acrobat. The electronic submission should include the audited financial statements, the auditing procedures report (496), data collection form and management comment and recommendation letter. To ensure compliance with this filing requirement, we have electronically filed this information on the City’s behalf. The financial statements must be submitted by January 2, 2008.

CONCLUSION

It has been a pleasure to provide audit services to the *City of Sault Ste. Marie*. The staff of the City’s finance department is friendly, conscientious and helpful.

We appreciate your business! Thank you.